

Ferry Doors Were Probably Open



Survivors of the ferry disaster, wearing donated garments in place of their ruined clothes, arriving Sunday at a mortuary in Zeebrugge, Belgium, to identify bodies of victims.

Water Entered Through Bow; Toll Put at 135

By Peter Maass
International Herald Tribune

ZEEBRUGGE, Belgium — The bow doors of the Herald of Free Enterprise were probably open before the British ferry capsized, officials said Sunday. Fifty-three of the 543 passengers and crew members were killed and 82 are missing and presumed dead.

Belgian government officials and representatives of Townsend Thoresen, the company that operates the vessel, said the doors, which are opened in port to allow cars and trucks to drive onto the vessel, may not have been closed as the 7,951-ton ferry left this port Friday night. It was presumed that water rushing in through the bow caused the vessel to heel over onto its port side within a minute.

Some of the officials said the doors are left open to allow exhaust fumes from the cars and trucks to escape from the vehicle hold.

However, they pointed out that the doors are nearly 10 feet (about 3 meters) above sea level, so it would be difficult for water to enter the ship under normal circumstances.

"Every time when the vessels leave the harbor the doors are open," said Valère Vautmans, chief of staff for Belgium's minister of public works. He asserted, however, that it would be "impossible" for water to come in unless the ocean was very rough.

When the ferry tilted over on its port side about five-eighths of a mile (1 kilometer) from Zeebrugge, the weather was calm. The boat, built in 1980, was starting a regular run to Dover, a journey that normally takes four hours.

Officials said there were 463 passengers, mostly British tourists and truck drivers, and 80 crew members on board, making a total of 543. By Sunday night, 408 of them were alive and on shore, while 53 bodies had been found.

The 82 missing persons are presumed dead, trapped in the wreck of the ferry, which lies on a sandbar in about 32 feet of water. The total death toll is thus tentatively put at 135.

"There is a very poor chance that someone is still alive," Mr. Vautmans said.

He and other officials indicated that the bow doors were the focus of several investigations launched in the aftermath of the disaster.

However, it appeared that something else happened to initially let water through the doors.

Mr. Vautmans and a port official said FERRY, Page 5

A Sloshing Scramble to Survive

The Rescued Recall the Melee After the Sea Rushed In

By Francis X. Clines
New York Times Service

BRUGES, Belgium — In the aftermath of the British ferry disaster, dozens of survivors wandered the halls of the Novotel here, drying their clothes on the balcony rails, weeping into the arms of newly arrived loved ones, fearing for missing family.

"I'm so proud of this one," a ruddy-faced man exclaimed out in the hotel's corridor, hugging his daughter with a teary, wide smile that showed his front teeth had been knocked out on the ferry.

Some passengers, missing close friends, admitted ambivalence over their own rescued joy in life.

"I got away from here," said Miles Southgate, a 30-year-old carpenter standing sadly in his socks in the lobby. "There are people who are dead. I've suffered a lifetime, that's all."

There had been no hint of a position fight Friday night in the crowded lounge aboard the Herald of Free Enterprise, and this made it all the more frightening when the starboard wall rose up to become the ceiling and people clung there before plunging 40 feet (12.2 meters) down into ocean water.

"They came flying down, tumbling on top of me, screaming," said William Cardwell, a port-side passenger, who estimated the boat listed 90 degrees in 30 seconds.



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Maritime specialists say the roll-on, roll-off type of car ferry becomes unstable quickly if flooding reaches the car decks.

Tales of heroism aboard the stricken vessel seem likely to etch themselves in Britain's national memory.

thought I was going to die, it was over."

A deck above, Mr. Southgate felt the same terror when, puzzled at the boat's not quickly righting itself, he realized that the port-side window was looking out from under sea water, and not upon the horizon visible seconds before.

"You can't imagine how strange that was, like looking into an aquarium," he said. "Right before that, when the tilting began, I remember seeing a man smiling at me across the room, amused, I suppose, at the strange look on my face."

And the man soon was up, not across, and lost in the final flicker of light, said Mr. Southgate, recalling his own sloshing scramble to stay alive. "Something was radically wrong."

Some, like Brian Simpson, a 40-year-old sergeant in the British Army, were at the hotel bar, happily raising a glass to life. "I had just bought a pint and it slid off the table," he said, recalling the moment of disaster in the ferry lounge.

Nearly, a soggy group of young men who were well beyond a first round of drinks began an ironic version of the soccer fan's song heard often on the ferryboats: the Continent. "Here we come, here we come, here we come!"

"There I was trapped in an air

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A frogman in a dinghy approaching on Sunday the capsized Herald of Free Enterprise's open bow doors, which were covered with nets to prevent the escape of the ferry's cargo.

Congressional Investigators to Decide On Immunity for Poindexter, North

United Press International

WASHINGTON — The chairman and ranking Republican members of the congressional select committees investigating the Iran-contra affair will meet Tuesday to decide whether to grant immunity to key witnesses, the Senate majority leader, Robert C. Byrd of West Virginia, said Sunday.

Mr. Byrd said in a television interview that it appears that the select committees of the Senate and House of Representatives are moving toward granting limited immunity for Rear Admiral John M. Poindexter, a former national security adviser, and Lieutenant Colonel Oliver L. North, who was dis-

missed as a National Security Council aide.

Both men have avoided testifying by invoking their Fifth Amendment constitutional right against self-incrimination.

"I think at some point use immunity will have to be granted," Mr. Byrd said. "The timing and the circumstances will determine that."

Use immunity prevents a witness's testimony from being used in a criminal prosecution against him.

Mr. Byrd said that he had spoken with Senator Daniel K. Inouye, a Hawaii Democrat who is chairman of the Senate panel, who had told him "that if the proper definitions and proper conditions are placed on use immunity, that the committee would not be jeopardizing the work of the independent counsel."

The Senate Republican leader, Bob Dole of Kansas, who appeared with Mr. Byrd on the television program, said, "I think we've reached the point where the committee needs to make that judgment."

The independent counsel, Lawrence E. Walsh, is responsible for prosecuting any criminal charges arising from the affair.

Shultz Hopeful On Arms

Cites Progress At Geneva on Specific Goals

By David K. Shipler
New York Times Service

PALO ALTO, California — Secretary of State George P. Shultz said that enough progress had been made recently in the Geneva arms talks to provide hope that his discussions in Moscow next month can make headway on cutting the number of long-range nuclear weapons in half as well as on eliminating medium-range missiles in Europe.

Mr. Shultz, speaking with reporters Saturday as he flew from Japan to the United States, gave the most optimistic assessment of the arms negotiations since the summit meeting in October at Reykjavik.

He said that after months of delay, Soviet negotiators had begun to translate the broad ideas presented in Iceland into specific positions in Geneva. He noted, for example, that if procedures for on-site inspection were agreed upon, for a treaty banning medium-range missiles, they could also be used in a treaty reducing long-range strategic nuclear weapons.

Mr. Shultz declined to confirm reports that the Russians had relaxed their previous rejection of any testing outside the laboratory of components of a space-based missile defense system. His silence on the point was taken as an indication that this was one of the areas of progress.

The missile defense plan envisions a technological breakthrough that would enable the United States to destroy ballistic missiles from space. At the Reykjavik meeting, Mikhail S. Gorbachev, the Soviet leader, insisted that a ban on testing such a system must be included in any treaty reducing strategic nuclear weapons.

Shortly afterward, Soviet officials were quoted as saying informally that Moscow might agree to some testing. But for months, Soviet negotiators said nothing about this in Geneva.

"The Soviets have a technique of bargaining," Mr. Shultz said. "This bargaining process, so to speak, takes place across a wide spectrum of activities, and they have an ambassador in country X speak to another ambassador in country X, he passes along something to the American ambassador."

"Or they invite visitors who aren't in the government," Mr. Shultz continued, "and they give

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LATE NEWS

Shamir Rejects Pollard Probe

JERUSALEM (AP) — Prime Minister Yitzhak Shamir strongly opposed Sunday investigating the spy scandal involving Jonathan Jay Pollard.

Some cabinet ministers had demanded an official inquiry. But Mr. Shamir said the government had dismantled the unit that employed Mr. Pollard and that meant "such rogue operations will not be carried out any more in the future."

SPECIAL TODAY



The South China Morning Post
Hong Kong's market has gained new stature among investors. Personal Investing, Pages 9-12.

GENERAL NEWS

■ The United States appears ready to approve aid for Pakistan despite a dispute over its nuclear program. Page 2.

■ In Poland, a debate has broken out about anti-Semitism during World War II. Page 7.

American Topics is on Page 4.

BUSINESS/FINANCE

■ Airbus representatives reportedly said that the consortium has four firm customers for the A-340 jet. Page 13.

■ Ecuador faces further economic problems after earthquakes paralyzed production and exports of oil. Page 13.

Iran, Syria Near Crisis In Dispute Over Shiites

By Ihsan A. Hijazi
New York Times Service

BEIRUT — A dispute has broken out between Syria and Iran over Iran's support for militant Shiite Muslims who have clashed with Syrian troops enforcing security measures in West Beirut.

Consultations were reportedly under way to head off a crisis in relations between the countries.

The Syrian military intervention in Beirut, at the request of top Lebanese Muslim officials, came after fierce battles between rival militias. Syria is Iran's main Arab ally, supporting Tehran against Iraq in the Gulf war.

The Iranians have expressed concern that activists of the pro-Iranian Hezbollah, or Party of God, may be suppressed and disarmed by the Syrian Army, which has so far stayed close of Beirut's southern suburbs where the faction is headquartered.

In a speech in Tehran on Friday, the Iranian president, Ali Khamenei, warned against what he called rumors that Hezbollah members were to be stripped of their weapons. He asked, "If these young, pious forces were to be deprived of their weapons who would defend Lebanon and the Islamic forces against Israeli aggression?"

He urged President Hafez al-Assad of Syria to punish the Syrians who killed 23 Hezbollah members last month in Beirut and said that Syria's prestige "might be tarnished."

The state-controlled Damascus radio, in what was seen as a reply to Tehran, said Saturday that those who carried firearms in Beirut under the pretext of fighting Israel had turned them against innocent Lebanese civilians.

The Damascus radio, monitored in Beirut, did not mention Iran by name but criticized what it called "external powers" that have spoken against the security plan in West Beirut.

Syrian soldiers, in the latest move to tighten security in the predominantly Muslim part of the Lebanese capital, have been confiscating motorcycles at checkpoints. More than 100 have been reported confiscated in the last 48 hours.

Police sources said the measure was a precaution against hit-and-run attacks or robberies that were common in the city before the 7,000 Syrian troops arrived last month.

In another development, a new Iranian ambassador arrived in Beirut on Saturday to take up his post. He was welcomed by Hezbollah members in the mainly Shiite southern suburbs.

Hezbollah gunmen left West Beirut after 23 of their members were killed by Syrian soldiers last month. They relocated in the southern suburbs. Since the arrival of the Syrians, West Beirut has been cleared of militiamen.

Meanwhile, there has been no confirmation from the police or any other source of a report in an Arab newspaper that two West German hostages were killed when the Syrians stormed the Hezbollah stronghold, Al-Itihad, which is published in the United Arab Emirates, said that the two captives, Rudolf Cordes and Alfred Schmidt, died in the clash.

The report came 24 hours after the West German newspaper Die Welt said the two were being held at the Iranian Embassy in West Beirut.

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In Tokyo, Pummeling the Prime Minister

A Japanese housewife hits an effigy of Prime Minister Yasuhiro Nakasone during a demonstration Sunday against a proposed sales tax. The banner on the effigy reads "Liar Prime Minister." The government had promised not to introduce a large indirect tax during last year's election campaigns.

For Moscow's Youth, It's the Rockers vs. the Lyubers

By Bill Keller
New York Times Service

LYUBERTSI, U.S.S.R. — In a jerry-built gymnasium hidden beneath an apartment building in this eastern Moscow suburb, a half-dozen teen-agers are pumping iron. White, well-muscled bodies strain at the homemade squat bars and leg weights, to the beat of pop music from a boom box.

These young men and their suburb have become a Moscow sensation since a popular weekly magazine, Ogonyok, asserted that a fearsome gang of teen-age vigilantes had arisen from Lyubertsy's underground weight-lifting rooms.

The Ogonyok article described groups of young, body-builders, calling themselves Lyubers, who roam Moscow, sporting an informal uniform of baggy checked pants, white shirts and skinny black ties, terrorizing

hippies, punks and other young nonconformists.

The authorities condemned the article as sensationalism, and the body-builders say they are up to nothing more menacing than emulating Arnold Schwarzenegger, whose pictures are posted to their basement walls.

But in a city where the rumor is a highly developed mass medium and suspicion of the official version of any story is habitual, the Lyuber story is widely believed. It has provoked, among other reactions, fascination and social introspection.

Throughout Moscow, there is a rustle of rumors: Lyubers, Lyubers," said Yuri Shekchukhin, a commentator on youth affairs for the weekly cultural newspaper Literaturnaya Gazeta.

On at least two occasions in recent weeks, officials say, hundreds of Moscow teen-agers

have gathered near reported Lyuber hangouts, spilling for a fight.

"We will defend Moscow," declared a notice that was circulated in Moscow secondary schools, calling on students to gather for a showdown. Local devotees of the rock music genre known as heavy metal signed a petition saying: "We, Moscow metalists, declare war on the Lyubers throughout the city and district. The press has already given the Lyubers their due. Now it's our turn."

The police prevented a clash Feb. 22 "only with great difficulty," Major General Viktor V. Goncharov of the police was quoted as saying last week by the newspaper Sovetskaya Rossiya.

In response to the Ogonyok article, one newspaper has set up a telephone hot line for teen-agers to discuss their problems. The Communist Party has organized peace par-

leys among groups of young people and has begun a campaign to provide more acceptable outlets for youthful energy, such as new sports clubs and discotheques.

The controversy has lent urgency to a debate about what is happening to a restless generation of Soviet youth, and where the official system failed to satisfy their needs.

Ogonyok, which is affiliated with the Communist Party daily newspaper Pravda, published the Lyuber article in early February. Weaving together interviews with members of various youth cliques — both the Lyubers and those who said they had been victimized — the writer, Vladimir Yakovlev, painted a portrait of a vigilante movement with unmistakable neo-fascist leanings.

"Hippies, punks and metalists shame the

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Academics Urge End To Apartheid

Reuters

JOHANNESBURG — Twenty-seven academics at one of South Africa's most influential universities have urged President Pieter W. Botha to scrap apartheid and commit to a power-sharing with blacks.

The academics from Stellenbosch University, the intellectual cradle of the ruling National Party, issued a statement Saturday saying they could no longer refrain from making known their concern at the stagnation of apartheid reform.

Also Saturday, Willem de Klerk, brother of South Africa's minister of national education, Frederik W. de Klerk, announced he was resigning as editor of the Afrikaans-language Sunday newspaper Rapport.

Mr. de Klerk, 58, cited interference by the National Party in the content of the newspaper, which has taken a more critical stance toward the government than other Afrikaans newspapers.

The criticism from two sectors of the Afrikaans establishment could damage the National Party as it prepares for a May 6 general election for whites.

Already, several National Party members have resigned to protest the pace of reform. Three former party members, including South Africa's former ambassador to Britain, Denis Worrall, are running as independents in the election.

The Stellenbosch academics, including 23 professors, said they were convinced that the "process of negotiation about the accommodation of all — particularly black — South Africans in the decision-making process is seriously retarded by the government's hesitance to issue signs of hope."

Whites, Indians and mixed-race people are represented by separate

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In Asia, Shevardnadze Encounters Questions About Soviet Credibility

By Michael Richardson
International Herald Tribune

SINGAPORE — The Soviet foreign minister, Eduard A. Shevardnadze, has encountered credibility problems in his efforts to expand relations with non-Communist countries in Southeast Asia and the South Pacific.

Mr. Shevardnadze ended the portion of his Asian tour devoted to non-Communist countries on Sunday. In his six-day tour of Thailand, Australia and Indonesia he tried to underscore Moscow's readiness to improve relations.

But credibility problems were evident in Indonesia over the Cambodian conflict and in Australia over Soviet offers of fishing and commercial deals to small South Pacific island nations.

Both issues are regarded in the region as important tests of Soviet sincerity. Doubts about Moscow's intentions inhibit improvement in political links.

Mr. Shevardnadze's visit to Australia, a U.S. ally, was the first by a Soviet foreign minister. In Indonesia, it was the first such visit since the government of President Suharto took power in the late 1960s, ending close ties with the Soviet Union and China.

Shortly after Mr. Shevardnadze left Jakarta on Sunday, the Indonesian foreign minister, Mochtar Kusumaatmadja, said the Soviet foreign minister had not made any new proposals on Cambodia.

Mr. Mochtar, who earlier had complained about the lack of "concrete results" from the visit, said "serious differences" were blocking progress toward a Cambodian settlement.

He said Mr. Shevardnadze would convey the views of Indonesia and its five partners in the Association of Southeast Asian Nations

this week to leaders of Laos, Cambodia and Vietnam.

Other members ASEAN are Brunei, Malaysia, the Philippines, Singapore and Thailand. Mr. Shevardnadze began his swing through the region on March 2 with a five-hour visit to Bangkok for talks with Thai officials.

Mr. Mochtar said that whether Soviet relations with ASEAN improved would depend on what happened after Mr. Shevardnadze's talks in Indochina.

At a banquet for the Soviet foreign minister on Friday, Mr. Mochtar said Southeast Asia's biggest security problem was Vietnam's military presence in Cambodia.

He called on Moscow to make "more concrete contributions" to end the conflict there.

But at a press conference on Saturday, Mr. Shevardnadze appeared to rule out an attempt by the Soviet Union to use its extensive aid and close ties with Vietnam, Cambodia and Laos as leverage to resolve the Cambodian dispute along lines proposed by a majority of United Nations members.

Peace proposals by the UN and the resistance movement in Cambodia call for withdrawal of Vietnamese forces and for free elections to choose a new government in Phnom Penh.

Mr. Shevardnadze said Moscow did not hold the key to a Cambodian solution and supported proposals for a settlement put forward by Cambodia and Vietnam.

He said that both countries were sovereign states and had offered "legitimate" terms for national reconciliation in Cambodia.

At his press conference in Jakarta, he issued an implied rebuke to Prime Minister Bob Hawke of Australia and Australian opposition



Eduard A. Shevardnadze at a news conference in Jakarta.

leaders who expressed skepticism last week about Soviet assurances of good intent in the South Pacific.

Mr. Shevardnadze said this attitude revealed "a kind of feudal thinking, a sort of colonialist mania to perceive everything in terms of attempts to divide the world into spheres of influence."

In Australia, Mr. Shevardnadze had told Mr. Hawke and other officials that Moscow was seeking normal diplomatic, economic and cultural relations in the South Pacific.

Mr. Shevardnadze said that Moscow's policy toward the Asia-Pacific region, which was set out in a speech in Vladivostok in July by the Soviet leader, Mikhail S. Gorbachev, was designed to promote peace and cooperation.

But Mr. Hawke commented Thursday in an Australian radio interview as Mr. Shevardnadze left for Indonesia:

"I find it difficult on the basis of Soviet activities around the world over the last couple of decades to accept that they would limit their interests to purely fishing. You would have to think on the evidence of the past that that could be a cloak for other activities."

Justifying the Soviet military presence in the region, Mr. Shevardnadze said at a press conference in Canberra on Wednesday that his country felt threatened by both the United States and Japan.

He noted that U.S. forces were stationed in Japan, South Korea, the Philippines and Micronesia.

U.S. Is Reported Ready To Back Pakistani Aid Despite Nuclear Issue

By David B. Ottaway
Washington Post Service

WASHINGTON — The Reagan administration apparently has decided that it cannot head off Pakistan's acquisition of nuclear weapons and that it is unwilling to sacrifice the big American aid program to that strategically located nation to try to force Pakistan not to build a bomb, according to administration officials.

The United States will continue to object publicly to the Pakistani nuclear program, officials said in recent interviews, but will give priority to resisting increased Soviet pressure on Pakistan and to safeguarding the flow of U.S. aid to the rebels in Afghanistan, where there are about 120,000 Soviet troops.

Despite mounting evidence that Pakistan has reached the nuclear threshold, the administration is pressing Congress to grant another six-year waiver to a provision that otherwise would cut off U.S. aid to a nation that refuses to open its nuclear facilities to international inspection.

The administration is asking Congress to approve with no restrictions a six-year, \$40.2 billion aid program for Pakistan.

Administration officials acknowledge that there is little chance any more that President Ronald Reagan can provide Congress with "reliable assurance" that Pakistan is not moving toward building a nuclear bomb.

Under a 1985 congressional requirement, the president has to certify annually that Pakistan does not have a nuclear device and that U.S. aid will reduce the risk of it obtaining one.

The White House last gave that certification to Congress in October, despite intelligence it had that

Pakistan was producing weapons-grade enriched uranium.

President Mohammad Zia ul-Haq and his prime minister, Mohammed Khan Junejo, have denied this to the U.S. government. But U.S. officials said the only outstanding questions are how much enriched uranium the Pakistanis have and whether they have assembled the various parts of a bomb.

A State Department official said Friday that "we think they have the capability of producing" a nuclear bomb now, "but we're convinced they don't have one yet."

Last Sunday The Observer of London quoted a leading Pakistani scientist, Abdel Qader Khan, as saying in an interview that his country has succeeded in producing weapons-grade uranium and making a nuclear bomb.

The Pakistani government has since said that Mr. Khan denies that he gave the interview, but two reporters insist he did.

Mounting evidence that Pakistan is about to join the nuclear club presents both Congress and the administration with what Representative Stephen J. Solari, Democrat of New York, called a dilemma of "Rubik's Cube" proportions: how to fit together the U.S. commitment to nuclear non-proliferation with its equally firm commitment to aiding anti-Communist Afghan rebels dependent on Pakistan.

Proponents of a strong nonproliferation policy want to use the leverage of U.S. aid in a final bid to extract promises from Pakistan that it will not go any further toward assembling a bomb.

Administration officials argue that this would jeopardize the more immediate goal of supporting Pakistan against Soviet pressure and of helping the Afghan rebels.

Administration officials also said that they are still pressing Pakistan to consider carefully the implications of assembling a bomb — a step they say is certain to touch off a nuclear arms race with India that Pakistan is unlikely to win.

India tested a nuclear device in 1974 but then halted further development of nuclear weapons until recently.

Pakistan Reaffirms Policy

Pakistan pledged Sunday to continue its nuclear program, even if it meant losing foreign aid, Reuters reported from Islamabad.

"We shall neither be browbeaten, nor cajoled," Zain ul-Abidin, the acting foreign minister, told parliament. "I promise the people of Pakistan on behalf of the government, that no power on earth can deter us from pursuing our peaceful nuclear program."

Frogs' Efforts Finally Pay Off

NEW DELHI — India has banned the export of frogs' legs, saying they are more valuable as domestic mosquito predators than as gourmet diners abroad.

The Ministry of Environment and Forests said that the export ban, effective immediately, was to protect India's dwindling frog population.

WORLD BRIEFS

Israeli Police and Protesters Clash

BUQATA, Israeli-Occupied Golan Heights (UPI) — A protest, marred by a riot here Sunday when demonstrators began pelting Israeli policemen with stones, the authorities said.

The police said that nine officers and one protester were injured. The melee was broken up when the police fired tear gas and warning shots. Five protesters were arrested. The demonstrators, who police said numbered in the hundreds, waved Syrian flags, chanted anti-Israeli slogans and blocked roads leading into the town.

The protest was called to protest Israel's interference with the Druze town's water supply. Officials said they were unsure how the water supply was affected.

Lawyer Seeks to Void Abdallah Verdict

PARIS (AP) — The current lawyer for Georges Ibrahim Abdallah, who was sentenced Feb. 25 to life imprisonment on terrorism charges, said Sunday, he has asked the French justice minister to void the verdict.

The former lawyer, Jean-Paul Mazurier, acknowledged Friday that he had informed on Mr. Abdallah from 1984 to 1986.

Jacques Vergès, in a letter to Justice Minister Albin Chalandon, said it was the first time in French history that "the state sends to an accused a secret service agent disguised as a lawyer to betray the defense."

He asked the minister to issue a formal order to the Paris court to annul the verdict. The former lawyer, Jean-Paul Mazurier, acknowledged Friday that he had informed on Mr. Abdallah from 1984 to 1986.

Polisario Front Reports a Victory

ALGIERS (Reuters) — Polisario guerrillas said Sunday that they had won a large battle with the Moroccan Army on Friday, nine days after a major clash in which they reported having inflicted heavy losses on the government.

In a statement carried by Algeria's official APS news agency, the Polisario Front said 300 Moroccan troops were "put out of action" in the same area where the guerrillas said 213 Moroccans were killed and 83 taken prisoner on Feb. 25.

The statement said Polisario fighters overran Moroccan defenses on a 12-mile (20-kilometer) front, took 28 prisoners and destroyed five armored vehicles in the four-hour battle. In another statement on Saturday, the Polisario Front said the battles were part of a new offensive in its campaign for independence of the Western Sahara.

Marcos Aide Reaches Property Accord

MANILA (NYT) — A close associate of former President Ferdinand E. Marcos has agreed to turn over to the government his title to properties in New York and Hawaii, the head of a government commission investigating Mr. Marcos's wealth has announced.

The official, Jovito R. Salonga, chairman of the Good Government Commission, said Saturday that the Marcos associate, Antonio Florendo, agreed in a compromise accord signed Thursday to turn over the titles as well as \$3.5 million in cash if the government dismissed cases filed against him and lifted the freeze on his properties.

The properties are an estate on Long Island, three apartments on Fifth Avenue in New York and a Honolulu mansion.

Turkey Threatens Attack on Rebels

ANKARA (Reuters) — Interior Minister Yildirim Akbulut threatened retaliation on Sunday against Kurdish separatist guerrillas who killed eight Turkish civilians in an attack near the border with Syria. He hinted that retaliation might involve a strike across the border.

He was speaking after the Foreign Ministry summoned the Syrian ambassador on Sunday. The ambassador was told that Syria should tighten border security, a ministry statement said, because the Kurdish rebels who carried out the attack Saturday allegedly came from Syria.

For the Record

Egypt has granted political asylum to two Libyan Air Force officers who flew their C-130 military transport plane to southern Egypt, Abdel-Hamid Bekech, a former Libyan prime minister, said Saturday. He said the status of three Libyan enlisted men who made up the rest of the plane's crew has not been decided.

At least nine persons were killed and 36 were injured seriously early Sunday when a passenger train going from Djibouti to Dire Dawa in Ethiopia derailed, the Djibouti Transport Ministry said.

A Lebanese woman and her nephew have been charged with conspiracy and illegal possession of weapons following disclosure of an arms cache in the cellar of a Paris apartment building, judicial sources said Saturday. Leila el Mami, 40, was released provisionally, but her nephew, Zaid Hachache, 30, remained in police custody.

Greece Criticizes U.S. Over Policy on Turkey

By Alan Cowell
New York Times Service

ATHENS — In his sharpest criticism of the United States in months, Prime Minister Andreas Papandreu accused Washington of favoring Turkey over his country and threatened the closure of Voice of America relay facilities unless the purported imbalance were redressed.

Analysts said the Socialist prime minister's comments, seemingly intended in part to counter criticism by political opponents of his foreign policy, seemed a marked reversal in what Greece and the United States call a step-by-step attempt to improve their ties.

In a speech to agricultural cooperative members on Saturday, Mr. Papandreu criticized U.S. officials, including Defense Secretary Caspar W. Weinberger, for reportedly depicting Turkish troops in northern Cyprus as playing a defensive role. Turkey invaded the island in 1974.

"This is something which we are not prepared to accept without strongly protesting," he said.

Mr. Weinberger had planned to visit Greece later this month. Last week, however, Greek and U.S. officials said the visit had been postponed.

In his speech Saturday, Mr. Papandreu accused Washington of

granting Turkey far more aid than it does to Greece. Athens says the U.S. military-related aid should be disbursed at a seven-to-10 ratio in favor of Turkey, a proportion that gives Greece, a smaller country with a smaller army, a per capita advantage.

However, Mr. Papandreu said, U.S. government and congressional officials had told him that Turkey was receiving an extra \$1.5 billion outside the seven-to-10 ratio.

Referring to the Voice of America relay station, which helps transmit U.S. opinion, Mr. Papandreu said: "It is not possible that the Greek government will sign an agreement for VOA if there are no corrective moves."

Punjab Policemen Are Wounded At Sikh Temple

NEW DELHI — Four Punjab policemen were wounded by gunfire after entering the interior of the Golden Temple at Amritsar, the Sikh religion's holiest shrine, according to news agency reports.

The Press Trust of India initially reported that one person had been killed, but this was later denied by the police. Two of the wounded policemen were reported in serious condition.

The news agency said the four policemen who entered the temple on Saturday were dressed in plain clothes, apparently in deference to Sikh hostility to having police enter the shrine. It said the police had gone into the complex because of reports that someone was being held and tortured inside.

The Press Trust said that when the policemen entered the temple, they were fired upon from a room that had been purportedly "captured" by "suspected terrorists."

The action marked the third time in the past year that the police have entered the Golden Temple, and it seemed likely that the incident would stir new tensions between moderate and militant Sikhs over the sanctity of Sikh temples. The moderate Sikh government of Punjab state has been shaken by charges from militants that the police have been permitted too much access to Sikh temples.

Chun Avows Desire for Compromise

By David K. Shipler
New York Times Service

SEOUL — Secretary of State George P. Shultz is reported to have won assurances from President Chun Doo Hwa of South Korea that he would seek a compromise with the opposition on the form of an elected government.

According to an American official, Mr. Chun also repeated his pledge to move South Korea toward a constitutional democracy, hold free elections and leave office at the end of his term in February 1988.

Mr. Shultz met with Mr. Chun on Friday during a stop in Seoul en route from Shanghai to Tokyo.

The American official said that Mr. Chun also reassured Mr. Shultz that he would submit the proposed constitutional change, determined through compromise with the opposition, to a plebiscite.

These issues have been at the heart of negotiations between the government and opposition leaders in recent weeks.

"He spoke in compromising tones," the American official said of Mr. Chun. "He made it very clear he was stepping down. We believe him. He's going to step down."

But it is still an open question about what kind of government will replace Mr. Chun's. American officials have expressed impatience with the slow pace of what they call "political evolution," saying steps must be taken soon if the deadline of next February is to be met for the transition to a freely elected government.

But Mr. Chun did not give Mr. Shultz a timetable for revising the Constitution, an official said.

Mr. Chun's governing Democratic Justice Party has called for an elected parliament, which would then choose a prime minister. The main opposition group, the New Korea Democratic Party, led by Kim Doo Jung and Kim Young Sam, insists on a direct presidential election.

A direct election, the opposition argues, would be more difficult for the ruling party to tamper with. And a parliament, some fear, could be manipulated by Mr. Chun from behind the scenes even after he leaves office.

Chernobyl Said to Increase Mistrust of Nuclear Power

NEW YORK TIMES SERVICE

WASHINGTON — Although the world now relies on nuclear power plants for 15 percent of its electricity, popular mistrust could bring a virtual end to the nuclear age early in the next century, according to a report published by the Worldwatch Institute, a research organization.

In a paper entitled "Reassessing Nuclear Power: The Fallout from Chernobyl," the privately financed organization said Saturday that the political consequences of the accident last April at the Soviet Union's Chernobyl reactor were the "collapse in country after country" of a "pro-nuclear consensus" and the growth of anxiety about nuclear safety to levels that government leaders could not ignore.

Citing post-Chernobyl opinion polls, the report said: "Over two-thirds of the people in most countries are now against building more nuclear plants, numbers that have increased significantly since Chernobyl. Indeed, about half the people of Europe favor the shutdown of existing facilities."

In a survey of developments outside the United States since 1975, the study said that governments in power had approved the abandonment of nuclear programs in Sweden, Denmark, Austria, New Zealand and the Philippines and had canceled or delayed proposed nuclear construction projects in Spain, Greece, the Netherlands, Argentina, Brazil, Mexico, Italy and Spain.

The report was ridiculed by the Atomic Industrial Forum, a nuclear industry trade association. Accusing the Worldwatch Institute of being "grossly and consistently wrong," Don Winston, an association spokesman, said the institute earlier urged "a transition to a post-petroleum world in which coal-burning would be undesirable and almost all energy would be provided by solar or photovoltaic devices, wind, wood and water." He added, "Now they're talking smoke again — burning coal to replace nuclear."

These issues have been at the heart of negotiations between the government and opposition leaders in recent weeks.

"He spoke in compromising tones," the American official said of Mr. Chun. "He made it very clear he was stepping down. We believe him. He's going to step down."

But it is still an open question about what kind of government will replace Mr. Chun's. American officials have expressed impatience with the slow pace of what they call "political evolution," saying steps must be taken soon if the deadline of next February is to be met for the transition to a freely elected government.

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Mr. Shultz met with Mr. Chun on Friday during a stop in Seoul en route from Shanghai to Tokyo.

The American official said that Mr. Chun also reassured Mr. Shultz that he would submit the proposed constitutional change, determined through compromise with the opposition, to a plebiscite.

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Voice of Peronism Again Resonates in Argentina

By Shirley Christian
New York Times Service

BUENOS AIRES — Juan Domingo Peron and his wives are gone, but a new voice of Peronism is filling the plazas and the airwaves of Argentina with a passionate defense of workers' rights that keeps political tempers blazing.

Sam V. Ubalchini, who leads the labor movement that was the lifeblood of the Peronists, has become the most visible adversary of President Raul Alfonsin's economic proposals.

The government, under the pressure of a \$53 billion foreign debt, envisions opening up the economy to make it more competitive in world trade, including putting many state-owned businesses in private hands, promoting foreign and local investment, and offering equity in some of the indebted companies to foreign creditors. At the same time, it is trying to reduce the government deficit by cutting the work force and other steps.

Mr. Ubalchini, viewing the economy from a strongly nationalistic position, wants the president to dismiss his entire economic team and take another route. He proposes that the emphasis be on expansion of the internal market, with such measures as government investment to spur the creation of jobs, higher wages and repudiation of the "illegitimate" part of the debt. He wants the government to trace what happened to the money and refuse to repay what went out as flight capital.

"What worries us is that when they begin these belt-tightening measures they will end up adopting a recovery policy that helps just 10 million Argentines instead of all 30 million."

—Sam V. Ubalchini

"What worries us," he said in an interview, "is that when they begin these belt-tightening measures they will end up adopting a recovery policy that helps just 10 million Argentines instead of all 30 million."

What was needed, he said, was a major government-directed economic revival intended to increase jobs and wages, along the lines followed by President Franklin D. Roosevelt in the United States in the 1930s. He said that Roosevelt, "against all the advice of the American technocrats," adopted a plan that created 650,000 jobs in six months.

The dark leather jacket he wears in winter sets the fashion standard for many Argentine men. In the summer months, from December into March, he has been known to appear bare-chested before labor gatherings, recalling the "shirtless ones" who first swept Juan and Eva Peron into power 41 years ago.

Mr. Ubalchini, 48, said that he had seen Peron only from afar, but that he had a special recollection of Mrs. Peron, whom he called "practically the patron of the poor."

Mr. Alfonsin recently suggested that Mr. Ubalchini and his followers failed to under-

stand that the government, at the same time it is guiding the ship of state, was obliged to make repairs in the ship to stop it from taking on water, presumably an allusion to the need for economic change.

On another occasion, after one of the four general strikes that Mr. Ubalchini has called to back his arguments, the president accused labor of "stealing to cry" when it ought to be "prizing its teeth and going to work."

The labor leader responded that "crying is a sentiment, but lying is a sin," apparently alluding to what he considered to be unfilled election promises to labor by Mr. Alfonsin and his Radical Party.

Mr. Ubalchini came out of the relatively small but workers' union just a few years ago to emerge as a national leader at a time when the CGT was still officially outlawed by the military government that preceded Mr. Alfonsin's.

Since then he has presided over the CGT's return to legal status, but the government and the CGT are still arguing over the proposed collective bargaining law and over which of them should control medical and other social benefit programs for CGT members. Great political power lies in control of the benefits programs, a tradition inherited from Eva Peron.

"The Radical Party sees all of that money and says the unions always run it for their own profit and glory," a labor analyst said, "so now the Radicals want to run it for their profit and glory."

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THE NIKKO PERSPECTIVE

ON WHY

The Securities Industry is Becoming a Leading Industry in Japan

WHAT FORCES are behind the recent strong performance of Japanese securities companies?

Iwasaki: Three sets of developments have given strong impetus to our growth: developments in international capital markets, growth of the financial asset base in the domestic market, and deregulation and rapid growth of financial markets.

In international capital markets, there has been a strong shift toward securitization. Last year, for example, about 70% of transactions—primarily bond transactions—in the Euromarket were securities-related. Bank loans represented only about 27% of total transactions. Behind this shift toward securitization is an underlying need to adjust flows of funds between creditor and debtor nations. The funding requirements of borrower nations are not likely to subside suddenly. Instead, it has become increasingly clear which nations will be creditors and which will be borrowers. The trend toward securitization is therefore likely to continue for the long term.

Another important development in international capital markets supporting the growth of our operations is the growing importance of institutional investors. In an environment where interest rate and currency risks are greater than before, the role of the professional investor has and will continue to become more important.

Securities are also a more flexible mode of finance when it comes to developing new financial instruments and products. This too has been an important factor supporting the expanding role of securities transactions in the Euromarket and in other major financial markets.

WHAT DOMESTIC developments have boosted Nikko's performance?

Iwasaki: One of the most important has been the growth in financial assets in Japan. According to estimates made by the Nikko Research Center (NRC), expansion in financial assets is outstripping growth in real assets. The NRC forecast for 1987 through 1991 is for growth of 5.2% in real assets. Compare this with forecast growth of 8.6% for financial assets and you can see why growth in the financial services industry is likely to continue at a strong pace. The Japanese economy is shifting to become less of a "goods" economy and more of a "money" economy.

Along with this, we have seen a significant increase in sensitivity to interest rates and profitability of investments among individuals. Although securities still account for only about 20% of personal financial assets, we foresee a growing shift toward securities investments in the years to come. This trend will move in parallel with the growth in securities markets. For example, the volume of Japanese government bonds outstanding now is about \$916 billion, but in five years, this will rise to \$1,300 billion. Another very significant development will be the removal of tax exemptions on an estimated \$2,000 billion in savings beginning in October 1987.

This will lead to some important shifts in the flow of funds and will generate more opportunities for securities companies.

Reflecting the size of financial assets in Japan, which now total more than ¥600 trillion, or about \$4 trillion, Japan has also emerged as the world's leading creditor nation. At the end of calendar 1986, Japan's net external assets amounted to an estimated \$200 billion. By 1991, we believe this total will rise to \$500 billion. At present, about 80% of the increment to net external assets is accounted for by securities investments.

With this momentum behind it and with continuing deregulation, the Tokyo market is expected to move out in front as one of the world's three leading international money and capital markets. Surveys of experts indicate the consensus view is that Tokyo will rise to a position of importance equivalent to London in the near future and, thereafter, reach the same level of importance as New York, essentially propelled by the growth in domestic financial assets and by the growing volume of international transactions.



Takuya Iwasaki

Born in 1928, Takuya Iwasaki joined Nikko Securities in 1954. After having held various operational posts in the trading, underwriting, and other divisions of Nikko, he was appointed president of the firm on December 19, 1986.

WHAT ROLE has expansion in the market itself played in stimulating growth in your operations?

Iwasaki: A big role indeed. The size of transactions volume in the Tokyo market has expanded dramatically along with such developments as deregulation, increased participation of institutional investors, and fluctuations in interest rates and foreign currency valuations. All of these developments have prompted investors to move their portfolios more actively for short-term gains. As Japanese banks especially continue to step up their activities in the market, transactions volume will continue to expand.

Nikko is very well positioned to participate in this growth. For example, in our fiscal year ended September 30, 1986, we increased our equity share trading volume 55%; brokerage commissions rose 42%, setting a new record. The value of our bond transactions rose 116% for the year and revenues grew 38%. We made substantial gains in convertible bond transactions, in bond futures trading, and in the

sale of investment trusts to individuals and institutional investors. In addition, we achieved excellent results in the development and application of new systems, including, for example, use of the new BARRA/Nikko Japanese Equity Risk Model in our Index Fund TSP and Japan Index Fund.

In short, it was an excellent year for us. Revenues were up 50%, to ¥457.1 billion, and net income rose 75%, to ¥82.8 billion, each of which is the highest level in Nikko's history. Reflecting the excellent prospects for growth in our operations, the total stock market valuation of Nikko shares was approximately \$13.1 billion as of the end of 1986, over 268% higher than a year before.

WHAT EFFECTS will increased competition from domestic and foreign securities companies have on your operations?

Iwasaki: As in any growing market, we expect competition to increase. Right now, 36 foreign securities companies have securities branch licenses in Tokyo. We expect that number to rise to 50 before this year is out. Since some of these operations are branches of subsidiaries of foreign commercial or universal banks, we expect Japanese banks will also begin to argue more strongly for permission to set up securities operations in Tokyo. We expect that the number of our competitors will grow and that competition will become tougher in the years to come.

Other developments we have to keep in mind are further deregulation measures, such as the problem of the fixed commission structure and introduction of a shelf registration system.

These developments, along with the sheer growth of the Tokyo market, form the backdrop for our continuing expansion. As Japan becomes an increasingly important exporter of capital and an international financial center, the opportunities will multiply very rapidly. The most important success factors will include having the right strategies and the right set of capabilities to meet the needs of the market as they emerge.

More than ever, we have to stress closeness to the markets we deal in. Growth in revenues and profits will no longer depend on continuing to do things the way they were done in the past but will depend much more on being in touch with the needs of the market and on being able to respond to those needs. Being market-minded, I believe, is a key point we must stress in the years ahead.

WHAT STRATEGIES will Nikko pursue to achieve this market-minded orientation?

Iwasaki: Our ultimate goal, as Japan becomes an increasingly important financial center, is to become a full-service, global financial institution. To accomplish this, I think Nikko must become more active in developing appropriate strategies and implementing them. We cannot afford to maintain a passive approach; we have to move into a more active mode.

I have summarized this in the phrase

Zoshitsu Keiei. The main theme of Japanese companies after the oil crises was what we call *genryo keiei*—that is, managing to eliminate waste in all phases of our operations. I think we need a shift in emphasis now toward upgrading the quality of our operations.

Zoshitsu Keiei means, specifically, managing to upgrade the quality of our personnel resources, our products and services, and our financial position and resources.

People, as anyone in the securities industry knows, are our most important resource. I think Nikko certainly has a highly trained and capable staff. But I think we need to emphasize *Zoshitsu Keiei* through increased training and through stimulating our staff to test the limits of their abilities by giving them increased responsibility. Unless younger people are given the opportunity to try, they will not make either the right decisions or the mistakes that we all learn from. I have forbidden our branch managers to complain about some young people not being self-starters. Instead, I have told them to give these younger people more responsibilities.

To do this, we have implemented changes in operating procedures by having both directors and managers do more to encourage initiative among all levels of staff, thereby realizing our full potential as a company through a fundamental change in the way our professionals approach their work.

Another key aspect of personnel development is evaluation. We are conducting a full review of our compensation and evaluation systems and will make the changes found appropriate for attracting and keeping the best talent.

HOW ABOUT the development of competitive financial products and services? How will Nikko keep ahead in this area?

Iwasaki: Personnel resources are a key factor here also. But development of financial products and services that stay ahead of client needs will require a greater closeness to the market. That is what I mean by being market-minded. Nikko's financial products and services are a crystallization of its know-how and expertise. Investment trust products and swaps are cases in point. But I don't think products that meet client needs can come from sitting, thinking, and waiting for divine inspiration. We have to be in intimate touch with the market, constantly sounding out the needs of our clients. When we know what the market requires, we can develop the proper services. Ideally, we should know our clients and the market so well that we can provide services that satisfy needs that clients themselves are unaware of.

We must also continue to work to improve our capital base and overall financial position. This is because profitability is now essential to generate the confidence of society and our clients.

Given the market opportunities we have before us and the potential of our resources, I believe we at Nikko have the opportunity of a lifetime to be a leader in the financial industry in Japan and internationally.

NIKKO

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AMERICAN TOPICS

The Changing Face Of Catholic Schools

In the past decade, enrollment of non-Catholics in Catholic parochial schools in the United States has increased from 2 percent to between 12 and 15 percent, the National Catholic Education Association says. In some inner cities, that trend has been magnified. The result in Washington, D.C., for example, is a Catholic school system for black families who have spurned public schools. The Washington Post reports. As white Catholics moved out of the inner cities in the 1960s and 1970s, some Catholic schools closed. Those that remained became predominantly black, with many non-Catholics. In Catholic elementary schools in Washington, 47 percent of the pupils are non-Catholics, and in three schools, the proportion exceeds 70 percent. All of the pupils take part in mandatory morning prayer and religion classes.

Short Takes

Commercialism is beginning to appear on videocassette tapes, according to U.S. News & World Report. Coca-Cola put a commercial on the European videocassette version of the film "Ghostbusters," produced by Coke's subsidiary, Columbia Pictures. If there were any cries of outrage, they went unreported. Indeed, Columbia and MCA Inc., the entertainment conglomerate, said they found that two-thirds of users would not bother to use the fast-forward button to skip past a commercial at the beginning of a tape. Accordingly, the companies are considering introducing the commercials in the United States.

Hunters who couldn't pass the buck fired at the eight-point white-tailed deer standing at a Virginia roadside. But the buck was stuffed. Rappahannock County officials then issued summonses for shooting within 100 yards (90 meters) of a public road. The county game warden, Jim Bankston, said that when he asked one unsuspecting hunter afterward whether he shot the animal, the man replied, "I guess not—it's still standing there."

Notes About People

When Leonard Garment, a Washington attorney and former counsel in the Nixon White House, represented Edwin Meese 3d during Senate hearings for Mr. Meese's confirmation as attorney general, it cost the government \$472,190. Now

Mr. Garment is representing Robert C. McFarlane, the former national security adviser, during investigations into the Iran arms affair—at no charge. "He's a friend in need," said Mr. Garment. Mr. Meese, as a federal official, could charge his expenses to the government. Mr. McFarlane, as a former official, cannot. "He doesn't have the resources to pay for something like this," Mr. Garment said.

Peter M. Dawkins, West Point football hero, Rhodes Scholar, brigadier general at 43 and now a Wall Street investment banker, says he is "giving careful and serious consideration" to seeking the Republican nomination in New Jersey



Peter M. Dawkins

next year for the U.S. Senate seat currently held by Frank R. Lautenberg, a Democrat. Originally from Michigan, Mr. Dawkins, 49, also had considered running there, and has been mentioned for other states. He points out that during his Army career he lived in 20 houses in 24 years.

Some Think Scarlett Should Rest in Peace

Taking editorial note of the scheduled sequel to "Gone With the Wind," The Washington Post says the literary executor of the late Margaret Mitchell, author of the 1936 best-seller, "apparently have their doubts about doing this thing, but fear that if they don't, someone will publish an unauthorized sequel that will be truly awful." The Post says that if the critics were charitable, they could review the sequel strictly as a sequel. "Truly magnificent when one considers how dreadful it might have been" or "a towering accomplishment in the field of pre-emptive literature."

Even so, says the Post, "no matter how enjoyable the sequel may be, it will be enjoyed with a tinge of guilt and a faintly resentful feeling that after Rhett Butler said, 'Frankly, my dear, I don't give a damn,' and Scarlett O'Hara said, 'Tomorrow is another day,' then there really was no more to be written and that should have been the end." —ARTHUR HIGBEE

Regan's Departure May Alter White House Economic Goals

By Peter T. Kilborn
New York Times Service

WASHINGTON — The departure of Donald T. Regan as President Ronald Reagan's chief of staff is likely to lead to significant changes in the administration's economic objectives, according to administration and congressional officials.

The first significant shift is a retreat from one of Mr. Regan's highest economic priorities: overhauling the way the executive branch and Congress prepare the federal budget.

The White House has been exploring such changes as the introduction of a second budget that would present the government's accounts more as businesses do, and shifting from one-year to two-year budgets. Other possibilities include combining the current two-step procedure of authorizing programs and then separately appropriating the money, and expanding presidential authority over the budget enacted by Congress.

But "budget reform," as the White House called the project, became markedly less urgent with the departure last month of its leading proponent, Mr. Regan.

Officials said Mr. Regan's replacement by former Senator Howard H. Baker Jr. also increases the likelihood that Paul A. Volcker will stay on as chairman of the Federal Reserve Board. It also improves the chance that the president will meet with congressional leaders to discuss the 1988 deficit. And it is expected to increase the power of Treasury Secretary James A. Baker 3d over economic affairs.



Donald T. Regan's replacement as White House chief of staff, Howard H. Baker Jr., left, meeting with Representative Jim Wright, the House majority leader, in Washington.

The proposals for budget change fell out of favor as Howard Baker, who was leader of the Senate Republicans during the president's first term, adopted a markedly less confrontational approach toward a skeptical Congress that is now controlled by the Democrats.

Edward M. Gramlich, acting director of the Congressional Budget Office, said the budget overhaul was now "as far back on the back burner as anything can get."

"It was closely identified with

Regan, and it has risen and fallen with his stature," Mr. Gramlich added.

Officials said it was still too early to determine many other effects on economic policy resulting from Mr. Regan's resignation. But they confirmed indications that Mr. Volcker's prospects for nomination in July to a third five-year term as chairman of the Federal Reserve had improved.

The officials added that the White House was likely to prove more agreeable to a conference with congressional leaders on the budget for the 1988 fiscal year and to discussing small tax increases to reduce the deficit.

They also said that the already powerful treasury secretary was likely to expand his authority to include more budget matters, which he previously left to Mr. Regan and the director of the Office of Management and Budget, James C. Miller 3d.

With respect to an overhaul of the budget process, Mr. Miller met twice this week with Howard Baker. No decisions were reached, officials said, but in the face of indifference in both Congress and the Treasury, officials said a sweeping overhaul proposal was improbable, at least for this year.

They said that the administration would urge some changes, including one that some Democrats in Congress endorse: showing the actual budgetary cost of the subsidized and guaranteed loans the

government makes to farmers, students and home buyers.

The White House also is seeking a constitutional amendment to require a balanced budget. And Mr. Regan still hopes to win the authority to veto individual spending items in money bills without having to veto the whole bill.

But Congress has ignored these proposals throughout Mr. Regan's tenure. Administration officials concede that they have even less chance for enactment now than they did earlier and said they would not fight for them with the vigor that Mr. Regan might have.

"Howard Baker is not known for kamikaze missions," said a former senior official in the Reagan White House. "If something won't fly, he's not going to make the jump."

Mr. Regan once attached such importance to budget issues that he put the White House counsel, Peter J. Wallison, in charge of a group to prepare a legislative proposal.

Mr. Regan was particularly interested in preparing a budget, as private businesses do, that would show the government's assets and liabilities. The government does not now have such a capital budget, only an operating budget, showing spending and revenue.

But critics said a capital budget could be used to camouflage federal deficits by allowing the administration to transfer borrowing into a capital account, thus reducing the borrowing required under a current account.

A Surprise at Supreme Court

Conservatives Fear Scalia May Be Joining 'Wrong Crowd'

By Al Kamen
Washington Post Service

WASHINGTON — Justice Antonin Scalia of the U.S. Supreme Court is "very affable, very gregarious," said a conservative legal activist, Daniel J. Pappas. "Let's hope he doesn't get too friendly with the wrong crowd."

The reason that Mr. Pappas and other conservatives are worried is that Justice Scalia's voting record so far shows him frequently with the court's liberal "crowd."

Most observers expected little ideological change when William H. Rehnquist became chief justice last fall and Justice Scalia joined the court. If anything, they predicted the court's conservative wing would become more firmly entrenched with Justice Scalia — aggressive, quick-witted and personable — giving added intellectual firepower and persuasiveness to the right.

The early indication, with not quite one-third of the court's 150 annual decisions handed down, is that those predictions were wrong. If anything, there has been a shift to the left, not to the right. Moreover, Justice William J. Brennan, a liberal, and not Justice Rehnquist, appears to be in the driver's seat.

Although most of the court's cases and many of its most important rulings have yet to be decided, the latest tabulations show that Justice Scalia has voted with Justice Rehnquist 75 percent of the time — less than President Ronald

Reagan's other appointee, Justice Sandra Day O'Connor.

That also is less often than Justice Byron R. White or even Justice Lewis F. Powell Jr., a centrist, and less frequently than the former chief justice, Warren E. Burger. Justice Burger and Justice Rehnquist had voted together more than 90 percent of the time at this point last term. During her first term, Justice O'Connor agreed with Justice Rehnquist 82 percent of the time.

At the same time, Justice Scalia has agreed with Justice Brennan in 65 percent of the cases decided this term, virtually the same percentage of agreement that Justice Brennan has had with Justice John Paul Stevens, a moderate.

Observers have been watching closely to see whether Justice Rehnquist, the court's leading dissenter for many years, would moderate his views as chief justice and move to the center to control which justice writes the court's opinion. He has not budged. In fact, he has dissented more often than he did last term at this time.

As a result, Justice Brennan appears to be in a more powerful position than he has been in for years, winning every one of the important cases decided so far.

By tradition, the chief justice decides who will write the court's opinion when he is in the majority. When he is not, the senior justice in the majority decides. Because he has been in the majority so often, Justice Rehnquist has been controlling the assignments.

Any doubts about Justice Scalia's independence and unpredictability were shattered last month

when he wrote an opinion, involving a police search, that stunned and dismayed conservatives.

It was not simply that Justice Scalia joined liberals and centrists in "handcuffing" police. He wrote the opinion. And he said the Constitution "sometimes insulates the criminality of a few in order to protect the privacy of us all."

Then Justice Scalia chided the dissenters, Justice Rehnquist, Justice O'Connor and Justice Powell, for not "adhering to the textual and traditional standard of probable cause." He said the result was grounded upon "strict constructionism" — the battle cry of conservatives.

Conservatives, including many in the Justice Department, were astonished. Others were beside themselves. They had been uneasy with some of Justice Scalia's earlier votes siding with Justice Brennan, but there had been explanations for those. This one was too much.

A conservative activist, Patrick McGuigan, a staunch Scalia supporter, said he was "surprised and disappointed." Still, he remains confident that Justice Scalia's overall record will please conservatives, who ardently championed his nomination.

Replacing Justice Burger's vote with Justice Scalia's has so far made the court's voting pattern more liberal — in the conventional jargon.

Justice Scalia's vote probably changed the outcome in some cases, including one decision, seen by some as a victory for freedom of speech, striking down a federal law prohibiting nonprofit corporations from making direct political campaign contributions.



Antonin Scalia

He also has transformed cases that would have been 5-to-4 liberal wins to 6-to-3 majorities, including cases extending the reach of the Voting Rights Act, allowing special job protections for pregnant workers and making retroactive a ruling last year forbidding racial discrimination in jury selections.

The second key to the liberals' early success, however, has been Justice Rehnquist. The only real power a chief justice has on the court comes from assigning the justice who will write the court's opinion in a case.

Justice Rehnquist has remained steadfast to his legal philosophy. The price has been 13 dissents in the first 42 cases. Justice Brennan assigned every one of the 13.

"At this stage of the term, it is a liberal court," said Mr. Fein, of the conservative Heritage Foundation. "Almost all of the cases of import this term have come down liberal wins."

Account Used by North Got Tax-Exempt Funds

By Thomas B. Edsall
and Ted Gup
Washington Post Service

WASHINGTON — In 1985 and 1986, more than \$1.7 million was channeled from a U.S. tax-exempt foundation to a Swiss bank account being used by Lieutenant Colonel Oliver L. North for funds that helped arm the Nicaraguan rebels and finance the sale of U.S. weapons to Iran, according to documents.

The documents provide the first evidence that tax-deductible contributions were systematically transferred to an account under Colonel North's direct control. They also lay bare the circuitous route that the money traveled from the United States, through the Cayman Islands, to Switzerland.

The documents portray Colonel North, who was dismissed Nov. 25 from his National Security Council post, as directing that money raised by a conservative fund-raiser, Carl R. Channell, be sent to the Swiss account, which was in the name of Lake Resources Inc.

Mr. Channell received White House assistance in soliciting contributions from some of the country's wealthiest conservatives as part of a campaign to support the Reagan administration's policies in Central America.

Potential donors received briefings from Colonel North, heard talks by a top State Department official and, if they contributed enough, met with President Ronald Reagan.

As a result of Mr. Channell's efforts, millions of dollars flowed into his organizations, including his primary foundation, the National Endowment for the Preservation of Liberty. The documents show how \$4.9 million was disbursed to Colonel North's account and other entities. They do not show, however, how Colonel North ultimately used the money.

The documents describe Mr. Channell's overall efforts in support of the rebels, or contras, including what he called his Central American Freedom Program, a variety of publicly announced initiatives. But the documents do not explain why the company hired by the foundation to run that program, International Business Communications, sent much of the money to the Swiss and Cayman Islands accounts.

A report written by International Business Communications at Mr. Channell's request was obtained by The Washington Post. It attempts to reconstruct what International Business Communications did with the \$4.9 million it received from the foundation from May 1985 to December 1986.

In a two-page summary at the beginning of the report, the president of International Business Communications, Richard R. Miller, told Mr. Channell that the company sent some of the money to Lake Resources "at the request" of Colonel North.

Mr. Miller added: "At the present time, we are unable to obtain from him any information concerning the application of those funds after deposit to the Lake Resources account. However, we were assured by him at the time that the funds

were to be applied solely for humanitarian assistance."

This distinction is crucial: During the period when the documents were obtained, Congress had banned any direct U.S. military assistance to the contras.

Colonel North used the Lake Resources account to charter planes and ships to carry weapons to the contras, funnel cash to a training operation that dropped weapons by contra camps and provide expenses money for his chief lieutenant, Richard V. Secord, a retired air force major general.

The Tower report contains an important reference that apparently links the money raised by the foundation to Colonel North's operations. On April 3, Colonel North wrote himself a reminder to call Mr. Secord about "650K for LAKE."

On April 9, the International Business Communications documents show, a transfer was made from the foundation to the company, and then, through the Cayman Islands, to Lake Resources — April 11. On April 16, Mr. Secord reported back to Colonel North, \$650K received today as reported by banker.

From the documents, it is clear that Mr. Miller and International Business Communications played a much more important role than previously known. The documents reveal that the company is controlling how the money would be disbursed.

The report, which includes photocopies of the transfers to Lake Resources, also contains these significant findings:

• Money from American donors was commingled with profits from arms sales to Iran in the Lake Resources account at Credit Suisse Bank in Geneva. According to the documents, \$1.74 million went to Lake Resources in seven transfers from Sept. 20, 1985, to April 11, 1986. Of this, \$1.31 million was funneled through a Cayman Islands corporation called LC Inc., later renamed Intel Co-Operation Inc. The remaining \$430,000 was transferred directly to Lake Resources by International Business Communications.

• Another \$1 million went to Alpha Services S.A., a corporation controlled by the Nicaraguan Democratic Force, the military wing of the contras.

In effect, U.S. taxpayers were subsidizing the multimillion-dollar cash flow from the National Endowment for the Preservation of Liberty to International Business Communications, to Intel Co-Operation, to Lake Resources and to the host of other recipients.

Colonel North alleged in a new lawsuit Friday that the back-up appointment of a court-appointed independent counsel investigating the affair, Lawrence E. Walsh, as a Justice Department prosecutor is just as unconstitutional as his original assignment. The Washington Post reported.

Attorney General Edwin Meese 3d appointed Mr. Walsh in an effort to make unnecessary the lawsuit Colonel North had filed earlier challenging the constitutionality of Mr. Walsh's original appointment.

Edward Zorinsky Dies; Senator From Nebraska

By Peter T. Kilborn
New York Times Service

OMAHA, Nebraska — Senator Edward Zorinsky, 58, a Nebraska Democrat, died Friday night after suffering a heart attack while performing on stage in a variety show at the Omaha Press Club.

Mr. Zorinsky, a former mayor of Omaha, collapsed shortly after he left the stage, where he performed a song and dance before an audience of more than 1,200. The song was a

spoof on his frequent threats to switch to the Republican Party.

Mr. Zorinsky, always considered a maverick who often voted with the Republican Party on important issues, was serving his second term in the Senate.

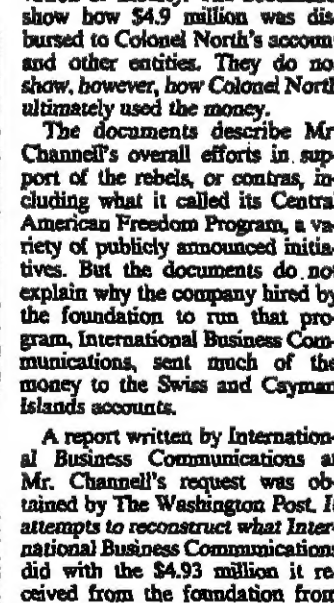
Nebraska's new Republican governor, Kay Orr, is to name a successor to serve the remainder of Mr. Zorinsky's six-year term. Mrs. Orr, a Republican, could appoint a Republican to fill the seat, which would narrow the Democratic majority in the Senate to 54-46.



Edward Zorinsky

played and composed for the Jimmie Lunceford and Count Basie orchestras in the 1930s, Friday as a result of a fall at his daughter's house in Brooklyn, New York.

Charles Gossage Grey, 92, a former U.S. diplomat in Paris who first came to France in 1916 as a volunteer in the Lafayette Flying Corps, for which he became an ace, Friday in Palm Beach, Florida.



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You will find below a listing of job positions published last Thursday under the rubric International Positions.

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If you haven't seen last week's INTERNATIONAL POSITIONS rubric, please ask for a free copy: Max Ferraro, INTERNATIONAL HERALD TRIBUNE, 92521 Neuilly Cedex, France. Tel: (1) 46.37.93.81. Telex: 613595

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THE CHANNEL FERRY DISASTER: Stability of the roll-on, roll-off type of vessel is an issue

Open Spaces, Other Features of Ship's Design Questioned

By Steve Lohr
New York Times Service

LONDON — The ferry tragedy outside the Belgian port of Zeebrugge on Friday has raised questions about the design of the roll-on, roll-off type of vehicle-carrying ship involved in the accident, according to marine experts.

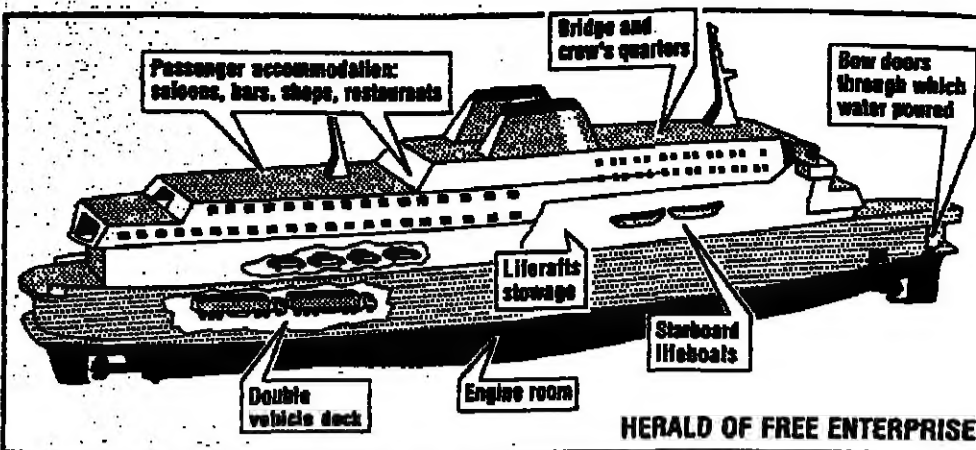
The British government started a preliminary investigation Saturday into why the Herald of Free Enterprise, a British vessel, heeled over and capsized in just over a minute, shortly after leaving the Belgian port on the North Sea.

"Our investigators are already there," said Lord Brabazon, the British shipping minister. "But it is too early to say precisely what happened."

Independent maritime specialists said roll-on, roll-off ferries become unstable quickly if flooding reaches into the vast decks that hold the automobiles.

The Herald of Free Enterprise, owned by Britain's largest ferry operator, Townsend Thoresen, had two such car decks, which run from one end of the ship to the other. They are like a short stretch of road inside the ship, without compartments that would hinder cars driving on or off the ship.

"It was bound to happen at this stage," said Alan Thorpe, a ship-



HERALD OF FREE ENTERPRISE

ping expert who writes for maritime journals. "These ships are just big boxes. With these vessels, if water comes in, they go down very quickly."

Clive Langmead, a former Townsend Thoresen official who is now a marine consultant and journalist, said, "The roll-on, roll-off ferry is a safe design, but a very vulnerable design."

The ferry's design also explained the speed with which it capsized. "It is a car ferry, and such a large vessel means the inside is very open and there are very few bulkheads," said Lieutenant Alan Tate of the

Royal National Lifeboat Institution. "The ship will take in water very quickly."

Roll-on, roll-off vessels have been used as car ferries for decades throughout the world. The Herald of Free Enterprise had operated without incident since it was built in 1980.

Despite the generally good safety record, questions about the safety of roll-on, roll-off vessels have been raised in the past. In 1980, the International Maritime Consultative Committee issued a report saying that more such vessels were lost in accidents

than ships with deck areas divided by bulkheads.

The alternative — placing partitions to separate cars — would make loading and unloading far more time-consuming. To date, that alternative has not been seriously considered.

Townsend Thoresen has 24 ferries, including two in the same class as the Herald of Free Enterprise. In the summer, the company is expected to bring into service two "super ferries" to make the crossing between Dover and the French port of Calais and carry about 2,000 passengers each, twice the

number usually carried by the Herald of Free Enterprise.

The effect of the accident on the ferry industry, which employs more than 10,000 people in Britain alone, is uncertain. "This will undoubtedly damage the market, prompting some people to fly and others to put off the trip," said one maritime analyst. "But it is very hard to know how much."

Each year roughly 23 million passengers and 2.5 million cars make the trip by ferry and hovercraft between Britain and the Continent, with 250 crossings a day, making the waters the busiest seaways in the world. Yet there have been only five major incidents involving passenger ferries in the last five years.

Until now, the worst was in 1982 when six persons were killed when the European Gateway sank off England's east coast after colliding with another ferry.

Impact on Channel Plan

The ferry disaster will likely heighten safety concerns about the tunnel under the English Channel that a British-French consortium plans to build. The Associated Press reported from London.

One of the fears about the proposed railroad link, known as Eurotunnel, between Britain and

France is that passengers would be engulfed by fire in the event of an accident.

Plans call for trains to carry passengers and cars from terminals near the ports of Folkestone, England, and Calais when the tunnel is completed in 1993.

There also are concerns that the tunnel might be vulnerable to terrorist attacks and sabotage.

The tunnel consortium, a private group with no financial support from either the French or British government, insists that its plans for building and operating the 31-mile (50-kilometer) tunnel are safe. Proponents point to the success with which the Swiss railroads have been carrying passengers and their cars through Alpine tunnels for more than 30 years.

Critics argue that the fact that passengers will remain with their vehicles substantially increases the risk of a fire.

Eurotunnel's plans call for three tunnels to be built. One would carry northbound traffic, one southbound traffic and the third would be a central service tunnel.

During an emergency in one tunnel, the other two could be used to evacuate passengers. Access points between tunnels are to be spaced every 1,237 feet (375 meters).



Prime Minister Margaret Thatcher of Britain hugging Lisa Fisher, 4, at a hospital in Blankenberge, Belgium. Lisa and her parents, Paul and Barbara Fisher, of Northampton, England, were among the survivors of the ferry accident.

For Worried Relatives, A Bitterly Long and Tense Wait for News

By Howell Raines
New York Times Service

LONDON — During the day, emotionally drained relatives of the dozens of passengers listed by the Townsend Thoresen headquarters in Dover and at the Maidstone police station in Kent.

Television broadcasts concentrated on the debate over the safety of the roll-on, roll-off ferries. The broadcasts on Saturday increasingly featured tales of heroism from the dark, trilled interior of the stricken vessel.

Some of those accounts seemed likely to etch themselves in the national memory.

The British Broadcasting Corp. carried stories of a missing man who allowed his body to be used as a bridge so that others could climb to safety, of another man who clambered about the ship carrying a baby by holding its clothing clenched in his teeth and of a little girl who complained about the unfairness of dying in the accident.

"I've been over such a good girl," she told the woman who rescued her. "I've never told any lies."

There were moments of tension at the ferry terminal in Dover, as relatives outside reportedly punched a photographer and jostled a television crew. Later, the

group of 40 to 50 was taken inside the Townsend Thoresen headquarters and lodged in the company cafeteria.

"There was a surprising degree of patience displayed," said Major Eric Bentley, the leader of a group of Salvation Army counselors working in shifts at Dover. "Any kind of distress was not displayed in anger but at the delay in getting the news."

"We've been rather surprised at the courage they're displaying," he added, saying most of the people waiting in Dover had relatives among the crew members, many of whom are also missing. "The main problem is this delay in news. People were very tense because they don't know whether their relatives had survived."

Jane Lawrence, a press officer for Townsend Thoresen, said employees had been hit hard emotionally by the accident.

"This is a family kind of company in many ways," she said, citing close bonds between crew members. "We're all very proud of the fleet and the company. We're very distraught about it all, really. It really has pulled us together. We're doing our best to make it as easy as possible for the people who have been affected by it."

SURVIVE: The Rescued Recall a Scramble for Life

(Continued from Page 1)

pocket," one loudly announced. "With who?" a buddy chimed in, and the group, some with blood on their shirts, laughed in bravado.

Across a corner of the lobby floor filled with drying shoes and assorted passenger flotsam, Thorey Edwards dangled her 1-year-old son, Ian, who bawled and grasped at an interviewer's microphone.

"He wouldn't sleep in his cot," he said, because my husband had just picked him up out of the belly buggy a second before the boat went over," she said. "We were hanging onto tables so we wouldn't slide down into the water. There was lots of panic and screaming but my husband held on to the baby."

Raymond Cook, speaking from a bed at St. Jan's Hospital, had a broken leg and was slashed by glass in what he described as an initial melee of panic. "It was terrible," he said. "There were men fighting because they wanted to get out."

Graham Drury said he and his family were watching a shipboard video when the boat slipped over. "No warning, nothing," he said. "People were hurled through plate-glass windows, partitions buckled."

Other passengers, trapped fur-

ther down toward the lounge's port-side wall as it tilted and became the floor, recovered by clinging to the lounge table legs that were bolted to the deck.

"We climbed up the seats, and before long some sense settled in and everyone was helping," said Dick Murland, a heavy truck driver like Mr. Cardwell. Both of them stayed aboard to assist passengers to safety on the rescue routes, dropped 30 feet down from the starboard portholes. Both feared a high number of the missing might be their colleagues who had stayed below decks sleeping in their trucks before the ocean rushed in.

One such driver, Joseph Kay, scrambled for his life from the cab of his truck. "I climbed up a truck, the one on top of mine," he said. "I saw the door I was looking for, but it was above me."

He could not recall how he was able to get through the invading waters. "I could hear people shouting from other cabs: 'Help me! Jesus help me!' But I couldn't do anything. Maybe they're okay, and maybe they're not."

Survivors said the darkness within the ferry was particularly terrifying.

After the emergency lights had held for only an instant, according to passengers, the screams of people bobbing in the water could be heard echoing across the ocean pool below, where empty life jackets floated and glowed.

Survivors said they had shared the conviction that the boat was headed deep to the bottom.

"I was thinking, 'Will it be quick?'" Mr. Southgate said. "And I thought, 'No, it will be slow, and just analyzing it that way was awful.'"

Thus, when some passengers sought to break open the starboard porthole windows, now up above, there were screams from people who feared that the last vital air pocket would rush out.

"Don't break the windows!" came the cries.

But others feared to the contrary, sensing that breaking up and out was their only possible escape before the boat plunged deeper.

There was fresh shock among the survivors when the first rescuers, heralded by sky flares, landed above at the portholes and announced that the passengers would descend no farther.



"They broke the windows and shouted down, 'You're safe on a sand bar!' and I couldn't believe it," said Rebecca Corbly, an 18-year-old who was aboard with her family on a bargain excursion at \$1.50 each.

"I had given up, blacked out," she said, describing her fear of death. "Me mum pushed me back up from the water, and blokes came from somewhere to hold me safe."

Mr. Cardwell, the truck driver, said, "I thought it was a blessed miracle when the boat stopped going down."

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Herald Tribune

Published With The New York Times and The Washington Post

And What About Israel?

Jonathan Pollard has been sentenced to life imprisonment. He deserved severe punishment. He took money for stealing huge quantities of major U.S. secrets over a period of 18 months. To go easy because he is shoveling information to a country that is a friend would condone his compromising of specific secrets, of intelligence sources and methods and of American freedom of action. It would encourage hostile countries to recruit "false flag" spies like the KGB lured Jerry Whitworth of the Walker case to spy for "Israel". It would undermine security.

And what about Israel? It acknowledges only a "rogue operation." But the handlers were responsible officials. Connections to the embassy were strong — the guilty man ran there. He was "tasked" biweekly. What he stole would have filled a small room, floor to ceiling. The material seems to have been e-copying. So high officials, receiving this staggering take for all that time, never thought to ask where it came from?

Once their man had been caught, two of Mr. Pollard's handlers rushed back to Israel before they could be questioned. Only a small portion of the documents stolen were returned, and only copies. Having promised to "call to account" those involved, and having been advised that one of the two men, Colonel Aviem Sella, was about to be

indicted, the Israelis promoted him. Why? The suspicion is overwhelming that Israel did something terribly wrong and is now covering up and counting on its high strategic and political standing to spare it further costs. This is a country that enjoys extraordinary U.S. intelligence cooperation as a matter of course, that is moving to reap major indirect forms of U.S. aid now that its extraordinary \$3 billion a year in direct aid is leveling off, and that is crucially dependent in the long run on American trust.

The State Department says U.S. officials will not deal with the indicted Colonel Sella. That is not enough. The Israelis owe the full story of the raid on American intelligence computers. The affairs and societies are different, but President Reagan has just set an excellent example of accountability. Will the Israelis prefer to wait for widespread American political exasperation and the consequent pressures that are sure to be urged? The Israelis want to bury the affair. But it forces a fundamental probing of just what the mutual obligations of Israel and the United States are. Many people have a feeling of having been taken for a ride, and that feeling could take forms that the Israelis cannot possibly want to see. They need to do something about it — and fast.

—THE WASHINGTON POST.

A Third Reagan Term

Now what should happen when you make a mistake in this: You take your knapsack, you learn your lessons and then you move on... You put things in perspective. You pull your energies together. You change. You go forward.

That does not sound like an inaugural address, yet an inaugural address is what President Reagan's speech last Wednesday amounted to, an appeal for a fresh start. He is desperately eager to extricate himself from the Iran-contra quagmire. One could almost hear him grit his teeth as he accepted responsibility, pledged obedience to the law, promised energetic leadership.

It is not in anyone's power to grant that fresh start. Questions about his credibility will hang like thunderclouds until Congress and the independent counsel conclude their investigations. Still, the world won't stop, and the commander in chief insists that he is eager to command, to start again.

My fellow Americans, I have a great deal that I want to accomplish with you and for you over the next two years.

If he is serious about governing, not just about escaping the muck, he is entitled to public support. Is he serious? To judge by what he says, the answer is an incredulous no. To judge by what he seems ready to do, it may be a hopeful yes.

On Thursday he expanded on what he wants to accomplish "with you and for you over the next two years." He cited his Strategic Defense Initiative, a constitutional amendment requiring a balanced budget, and anti-abortion legislation. That would be a dispiriting list, if only because the budget and abortion items are empty sloganeering.

Probably his most urgent task is to demonstrate respect for law in the foreign affairs arena, and here his pledges offer an encouraging start. His administration has not always obeyed the letter and spirit of

the law concerning congressional consultation; it will now be hard not to.

The missile defense initiative, while founded in hyperbole, has probably prompted Soviet flexibility on arms control. The news of Secretary of State George Shultz's mission to Moscow in April stirs hope that Mr. Reagan may yet find it possible, after the Reykjavik wreckage, to use his space-based defense scheme as a bargaining counter to negotiate reductions in nuclear weapons.

Will the president also be able to negotiate reductions with Congress in the awesome budget deficit? Not if he keeps insisting on the gimmick of a balanced budget amendment, and not if he keeps pretending that he believes the low deficit figures in his new budget. Congressional Democrats are now soberly willing to consider new taxes. Will the president go along and become fiscally responsible, finally?

Congressional Democrats, disposed to perilous protectionism, will not show similar responsibility on trade unless the president leads. He has sent Congress an appealing package of proposals to enhance U.S. competitiveness in world trade. What remains to be seen is how much he cares.

No legislation is needed to heal a grievous gap plain since the first days of the 1980 campaign: the need to demonstrate respect, and concern, for black Americans. The hostile chill they feel troubles Republicans and Democrats. For a president who wants to achieve a great deal "with you and for you over the next two years," racial and social justice would be a splendid place to start.

Arms control, fiscal responsibility and social justice are not a liberal or a conservative but a realistic agenda. Can it be realized? If so, the president would make his third term the one to remember.

—THE NEW YORK TIMES.

A New Role for Italy?

As prime minister, Bettino Craxi brought vitality and a sense of movement to Italy's politics, qualities that had been lacking for many years. Under him the Socialists have begun to emerge as the first non-Communist counterweight to the Christian Democratic Party. The rivalry with the latter, and not any loss of public support, has now forced Mr. Craxi's resignation.

He had held the job for three and a half years, the longest run of any prime minister in Italy's postwar history, and the Christian Democrats say it is their turn. Their candidate is Giulio Andreotti. Five times prime minister and a sharp contrast to Mr. Craxi as the personification of his party's ingrown, highly cautious, almost invisible style of political management, Mr. Craxi resigned with a speech calling for sweeping reforms of Italy's political structure, a clear challenge to the Christian Democrats.

Hammering a new government together in these circumstances will take time, at best. But despite Mr. Craxi's high personal standing, there is no evidence that the balance among the parties is changing dramatically. Because Italy recalls Mussolini and the Fascist catastrophe with bitter clarity, a lot of voters consider passivity and stolidity in government to be positive virtues.

The past three and a half years have been prosperous ones for Italy, as for all of the industrial democracies. The economy has grown steadily. Inflation has fallen sharply, with as much political benefit to the Socialists in power in Italy as to the conservatives in power in the United States, Britain and West Germany. But if Mr. Craxi was lucky, he was also courageous, intervening forcefully to stabilize the economy.

He made several gestures — and they were highly popular — suggesting that the United States ought not to take Italy's answering support for granted. He refused, for example, to turn the Achille Lauro hijackers over to Washington, and last month he boycotted an international financial meeting on grounds that the United States and several others had settled the main questions before the Italians arrived.

More broadly, Italy argues that its economy is now as strong as Britain's and entitles it to similar status in the world's councils. But it is to have that kind of status, it must be prepared to carry greater responsibilities than Italian governments have traditionally wanted. That is another choice that Italians will have to take up, as they proceed to construct their next government.

—THE WASHINGTON POST.

Other Comment

Europeans Shouldn't Dally

The reaction of Western Europe to Mikhail Gorbachev's initiative to eliminate Euro-missiles has puzzled the Russians. The truth is that Western Europeans do want a deal, and their shifty reaction is little more than a negotiating tactic. An agreement would bolster right-of-center governments across Western Europe. But at a time when the Russians keep making new concessions, there seems no point in rushing to say yes. This strategy could be dangerous if taken

too far. It is possible that the negotiations in Geneva will get bogged down if NATO tries to squeeze the Russians too far, and that one fine day we will wake up to find that the nice Mr. Gorbachev has been replaced by a less congenial fellow. So it is important to be clear about what the West wants and then try to achieve it fast.

It is vital to demonstrate to ordinary Western Europeans that firm defense policies can lead to disarmament.

—Stephen Milligan, writing in The Sunday Times (London).

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Look for a Treaty Before Summer's End

By Charles Krauthammer

WASHINGTON — Strange bedfellows. It is not often that you will see the Reagan administration and the Soviet government on the same side of a nuclear debate. It is even rarer to see them arrayed together against a representative (albeit speaking for himself) of the quintessentially moderate Council on Foreign Relations.

But there they were on a television news show last week. In this corner, the director of the U.S. Arms Control and Disarmament Agency, Kenneth Adelman, and the first secretary of the Soviet Embassy in Washington, Vitali Churkin. In the other, William Hyland, former Kissinger aide and editor of Foreign Affairs, the council's magazine.

The issue was Euro-missiles. Mikhail Gorbachev, the Soviet leader, had offered Ronald Reagan what was originally a U.S. proposal: the "zero option," under which the Soviet Union and the United States would withdraw all their intermediate-range nuclear forces, or INF, from Europe.

Mr. Gorbachev's announcement was dramatic because he had been holding an agreement on INF hostage to some U.S. concession on strategic defense. Mr. Reagan refused. Now Mr. Gorbachev announced that he was "delinking" the two issues. You proposed the zero option, he said. We accept. Will you take yes for an answer?

The Western reaction is a fascinating study in nuclear politics. Officially, West European governments have welcomed the proposal. Privately, they are worried that the removal of the Euro-missiles will weaken the American nuclear guarantee that is the pillar of their security.

This fear is shared by Mr. Hyland, Henry Kissinger and others traditionally associated with arms control. They oppose the zero option. On the other hand, the Reagan administration, hotbed of nuclear hard-liners who reputed view arms control as a symptom of Western decadence, responded

with enthusiasm. Within four days of the Gorbachev offer, the administration had put a draft INF treaty on the table at Geneva. What is going on? Mr. Reagan wants the treaty not just because of the Iran affair. True, a treaty would make Mrs. Reagan and Congress happy and almost certainly lead to a summit photo opportunity with Mr. Gorbachev. But the administration was quite prepared to accept the zero option six months ago, long before Iran, long before it became a political necessity for an enfeebled president. The Reykjavik meeting was meant to be an INF summit until

The war over INF has just begun, but the outcome can be predicted. The unilateralists will win.

Mr. Reagan and Mr. Gorbachev got to dreaming of a nuclear-free world and the summit blew up over the Strategic Defense Initiative.

Why do hard-liners want a treaty on the intermediate-range missiles? To save SDI. They recognize the liabilities of such a treaty: It will make European elites who fought for deployment of U.S. Euro-missiles and who fear a "decoupling" that will feed European nationalism. But they prefer the benefits: Negotiating an INF treaty will take up the remaining months of Mr. Reagan's presidency and show his bona fides as a peace lover and arms controller. That will leave little political impetus and no time for derauling SDI, either by emasculating it in Congress or by gutting it at Geneva.

Given the choice between a nervous Europe and an undefended America, they choose a nervous Europe. The INF treaty is God's gift to unilateralists tired of having to play psychological body-guard to allies unwilling to defend themselves.

The coming war among Republicans over INF will not be between pro- and anti-arms controllers. It will be between unilateralists and Atlanticists. Mr. Hyland is not against arms control, but he represents those who see the Atlantic alliance as America's paramount concern. In his memoirs, Alexander Haig called the 1981 zero option "a frivolous propaganda exercise." Mr. Hyland calls the new proposal "even worse." Why? Because it would "break the link between the defense of Western Europe and American security."

Hard-line unilateralists argue that the purpose of U.S. Euro-missiles is to deter the Soviet SS-20s. If both systems come out, that deterrent function has been fulfilled in a rather convincing way.

No, say the Atlanticists. That is only one purpose. The other role of the U.S. missiles is psychological. It guarantees a "coupling" of the United States to the defense of Europe. "We put those weapons in for political reasons to reassure our allies," Mr. Hyland said. "We put them in because we felt some kind of psychological link was necessary to convince the Europeans that we would come to the defense of Western Europe if necessary, even using short-range or intermediate-range nuclear weapons."

To which the American unilateralist responds, privately: Too bad. The Europeans had better start looking after their own defense. We must look after ours. Ours lies in the Strategic Defense Initiative, and the road to SDI lies through a treaty on medium-range missiles.

The war over INF has just begun, but the outcome can be predicted. The unilateralists will win. Look for a treaty before summer's end.

Washington Post Writers Group.

Recasting The Rivalry In Europe

By Jim Hoagland

PARIS — Try to imagine the scene in the Kremlin as Mikhail Gorbachev tells his general staff about his new idea to rescue Ronald Reagan's presidency, pull nearly 1,000 Soviet nuclear warheads out of Europe and get European countries to think seriously for the first time in three decades about common defense efforts.

"In return, comrades generally, by accepting Reagan's 'zero option,' we will avoid a great theological debate about the 'decoupling' of America and Europe. As Kissinger, Brzezinski and the other strategists are already saying, I am launching a devilishly clever plot to weaken capitalist resolve over the long haul. Is that not worth a thousand of your warheads?"

Either Soviet generals are very different from the American senior officers I have known, or Mr. Gorbachev has persuaded them that he is up to something else. The recent suggestions in this space that Mr. Gorbachev would make the zero option an end game last summer control summit with Mr. Reagan will have flagged to readers that I think the answer is "something else."

By reviving the zero option, Mr. Gorbachev has marched up to the Rubicon on military strategy. Despite evident dangers for the Atlantic alliance in his latest move, it is in Atlantic's interest that he get across and bring his military with him. On the far shore lies a tacit but real acceptance that the Russians cannot achieve the kind of strategic superiority over the United States that they sought in the 1970s with their unending buildup of heavy nuclear missiles.

Mr. Gorbachev seems realistic enough to recognize that he came to power two years ago confronted by dramatically different "objective circumstances." Besides enthusiastically building up the U.S. nuclear arsenal, the Reagan administration was launching the threat to bundle Western military technology together in the Strategic Defense Initiative, forcing military spending up to ever higher levels and smothering any progress by a reformed Soviet economy in its tracks.

Mr. Gorbachev appears to have thrown his weight behind those Soviet military theorists like Marshal Nikolai Ogarkov who maintain that while nuclear weapons have their utility in grand strategy, Soviet efforts should now concentrate on reshaping conventional forces.

One of the keenest observers of Soviet strategy, Professor John Erickson of Edinburgh University, returned from a recent visit to Moscow with the impression that Soviet strategic doctrine may now be shifting toward a policy of nuclear "sufficiency" that would not require the present high levels of nuclear armaments. He based this judgment on conversations with senior Soviet officials who told him that the Soviet Communist Party's Central Committee is modifying the "equal security" concept that underpinned the Soviet buildup of the last decade.

Viewed in isolation, the zero option raises more problems than it solves at this point. Withdrawal of the U.S. Pershing-2 and ground-launched cruise missiles will inevitably raise questions throughout Europe about U.S. resolve to help defend it. The initial vision of an SDI that would shield America and Europe from Russian missiles and Mr. Reagan's performance at Reykjavik have already planted seeds of doubt.

Moreover, the simultaneous pulling out of the U.S. missiles and Soviet SS-20 and SS-4 ballistic rockets will leave the Soviets at least temporarily with a significant advantage in shorter-range nuclear systems, pending new negotiations on this category of weapons. American leverage will be weak in these talks, and Mr. Gorbachev's willingness to make some unilateral concessions will provide a key test of the theory that he is out to reduce Soviet reliance on nuclear weapons.

But the effort to get an agreement that leaves both sides with new medium-range nuclear weapons in Europe should be viewed as part of a still unfolding attempt by Mr. Gorbachev to switch superpower rivalry from the nuclear/strategic playing field to another, still poorly defined arena.

He obviously hopes that the integrated set of proposals he has presented to slash nuclear weapons and to trim conventional forces "from the Atlantic to the Urals" will provide the Soviet Union with significant advantage in that new arena.

But there is more than enough room for American negotiators and strategists to prevent such a feared result, and even to turn the tables on Mr. Gorbachev if it is such. On balance, negotiations on the zero option are now worth pursuing.

The Washington Post.

The President's Ordeal May Be Merely Beginning

By Tom Wicker

NEW YORK — Despite the Tower commission's report, the popular appointment of Howard Baker as White House chief of staff and Ronald Reagan's artfully crafted and delivered speech last Wednesday, the president's ordeal by investigation is by no means over.

First, as he himself says, the twin scandals of arms to the Iranians and funds to the Contras "happened on my watch." No amount of moving "more furniture" or promises of future reform or calculated imagery can change that admitted fact.

Second, what exactly did happen on President Reagan's watch has not been adequately explored, let alone fully reported — as, again, his own speech made clear.

For only the most glaring examples, what became of the millions collected from the arms sales, and from other governments, that were supposed to go to the Contras? Can Mr. Reagan's sketchy memory and shaky command of facts — both now acknowledged by him — be relied on when he insists that he "didn't know about any diversion of funds to the Contras"? The Tower report scarcely reached these questions.

He confessed to the nation that in managing the National Security Council, his "management style" did not work. Then he defined that style as "to identify the problem, find the right individuals to do the job, and then let them go to it."

If he really did identify the problem in Iran as one requiring arms sales to "those who might assume leadership in a post-Khomeini government," he failed to convey it to the "right individuals." Instead, as he said himself, he let his "personal concern for the hostages" override his "geopolitical strategy."

That cannot fairly be blamed on "some who served me" or on "activities undertaken without my knowledge." His own account suggests that either Mr. Reagan mandated a failing rescue operation carried out by people he designated, or doing what they understood him to want, or what he and the Tower report called his "management style" was ignorance and sloth.

If proper records of major security actions were not kept, as he complained, that is not just oversight; that is bad administration, or cover-up. If Mr. Reagan has now ordered that the NSC refrain from undertaking covert actions, and that Congress be consulted "not only in letter but in spirit," he is six years too late, and raises himself the question whether he has been taking care that the laws be faithfully executed.

Lawrence Walsh, the special prosecutor the administration wanted, has not impressed close observers as vigorously pushing his investigation. But the congressional

inquiries that are now taking shape have constitutional, public-interest and political reasons to move beyond the Tower commission's self-imposed limitations.

The Senate committee will grant limited immunity to Oliver North and John Poindexter, the former NSC officials who have refused on Fifth Amendment grounds to give their versions of events. That should open leads to the missing money, since Lieutenant Colonel North controlled one of the Swiss

bank accounts at issue. Vice Admiral Poindexter's testimony probably will be more valuable, disclosing far more than is now known about the extent of the president's involvement in the NSC's operations.

The New York Times.

Israelis Are Endangering the Israeli-U.S. Alliance

By Richard Cohen

WASHINGTON — The Israeli-U.S. alliance, based on mutual admiration, shared values and common strategic interests, is being corrupted by Israel's contempt for American sensitivities.

Israel paid an American to turn spy, staked first claim to Soviet Jews who preferred America over Israel and posted a military attaché in Washington whose record is both controversial and repugnant. If the relationship were a marriage, it would be heading toward the rocks.

Jonathan Jay Pollard was an Israeli spy. For that he was sentenced to life in prison. The documents he turned over to Israel were, by his own admission, extremely sensitive. They included reconnaissance photos that reportedly enabled Israel to bomb Yasser Arafat's PLO headquarters in Tunis — a near assassination for which the Arab world, reasonably enough, holds the United States accountable.

Intelligence information of that value, which was used at the highest levels of the Israeli government, is extremely hard to come by. Americans, who ask what their president

knew and when he knew it, are entitled to ask the same question of the Israeli government.

In its own way, Israel provided an answer. Rather than punish those implicated in the Pollard case, it rewarded them. For instance, Colonel Aviem Sella, indicted in the United States for allegedly being Mr. Pollard's paymaster, was named to command Israel's second-largest air base.

To all this, Israeli Prime Minister Yitzhak Shamir offers a nonchalant shrug of the shoulders. At a Washington breakfast, he appeared disinterested and bored with the Pollard affair and the fuss stirred up by Israel's role in the Iran-contra affair. Over and over, Mr. Shamir had the same refrain: "It's not important."

Maybe by itself it's not, but the Pollard case is just one example of Israeli contempt for American good will. Israel recently named General Amos Yaron as military attaché even though, on the recommendation of an investigatory commission, he was relieved of command after the Sabra

and Chatila massacres of 1982 in Beirut. His appointment was an affront to Palestinian-Americans. Had they been Jews instead, it would never have been countenanced.

Canada rejected him when he applied for accreditation. His appointment, Ottawa diplomatically explained, was not "appropriate."

More recently, Israel asked Washington to deny Soviet Jews automatic entry into the United States, saying they should go to Israel first. Mr. Shamir, who pleaded this cause in Washington last month, noted that Soviet Jews leave Russia ostensibly bound for Israel. Once out of the Soviet Union, though, many of them opt for the United States. They and Mr. Shamir obviously differ as to the precise location of the promised land.

Israel's behavior smacks of arrogance. It employed Mr. Pollard and now acts as if a weak apology will suffice. It posts a controversial military officer to the United States and almost dares the Reagan administration to do something about it. It as-

serts a right to Soviet Jews, forgetting or ignoring that America also considers itself a haven for exiles. America has a historical mission, too, and while it is not biblical it is deeply felt.

Israel enjoys great love and respect in America, particularly from a Jewish community which, like a mother, has always been willing to forgive. But there are signs that it is taking America and the Jewish community for granted. The Pollard case is a nightmare-come-true for American Jews. In Mr. Pollard the Israelis created an anti-Semitic stereotype: an American Jew of confused loyalties who sold out his country. Indignation and shame are felt in equal measure.

The Israeli government seems to assume that American Jews will back it no matter what. A good deal of the time, unfortunately, that is correct. But the American Jewish community rejected Mr. Shamir's plan for Soviet Jews, squirmed at the posting of General Yaron (was there no other man?) and hurls from the wounds inflicted by the Pollard affair.

By its conduct, the Israeli government is eroding the ultimate basis for the close relationship between it and Washington. Despite repeated pronouncements about mutual geopolitical interests, the essence of the U.S.-Israeli relationship is respect and affection — two democracies that share values much of the world does not share. But friends do not spy on one another and they do not take each other for granted.

The Israeli government does not seem to understand that. What can we expect next year from Jerusalem?

The Washington Post.

Pollard Was Israel's Responsibility and Still Is

ISRAEL'S decision to cooperate partially in the prosecution of spy Jonathan Jay Pollard was a blunder. In the process of providing only selective information to U.S. investigators, Israel has seriously strained its relationship with the United States, and an American devoted to Israel has been sentenced to life in prison with virtually no chance of parole.

Israel must accept a great deal of the responsibility for this entire tragedy. It should not have "run" Mr. Pollard in the first place, no matter how valuable his information. As several angry U.S. officials have said, you don't bite the hand that feeds you.

The information about Mr. Pollard's espionage activities that Israel initially provided actually set the stage for his decision to seek a plea-bargaining arrangement. He confessed and began to tell all only after discovering that the Israeli officials whom he had trusted and with whom he had worked had already given the U.S. government a considerable body of evidence against him.

Feeling betrayed and abandoned by Israel, he began to inform the prosecutors of even more incredible details involving the scope of the espionage ring — details left out by the Israeli officials. Israel has returned

only 163 of the more than 1,000 documents taken by Mr. Pollard, according to the U.S. government.

Earlier, Mr. Pollard had planned to "dissemble," or fabricate stories to get the American investigators off Israel's back. During the first few days of questioning by FBI agents, while he was still planning his escape to Israel, he made up all sorts of tales involving East Germany, Pakistan and other countries in order to confuse his interrogators. Even after he was arrested outside the Israeli Embassy in Washington on Nov. 21, 1985, after unsuccessfully seeking asylum there, he remained determined to lie about his involvement with Israel. He was going to be devoted to Israel until the end.

In January he told me that he expected a life sentence. Now he and his wife, Anna, sentenced to five years for assisting him, hope that somehow Israel will be able to negotiate a deal to get them deported to Israel. But what will Israel be able to offer the United States in return? Israeli intelligence experts recognize the seriousness of the problem. They know that other agents placed strategically and dangerously around the world are waiting to see what Israel does to Mr. Pollard — after what it did to him.

—Wolf Blitzer, Washington correspondent of the Jerusalem Post, writing in the Los Angeles Times.

LETTER TO THE EDITOR

Why Wait for Spin-Offs?

In response to the opinion column "SDI Spin-Off Might Improve Life Worldwide" (Feb. 19) by Geoffrey Parle, British minister of trade and industry:

Mr. Parle leads up to something that needs to be made clear: the development of abundant energy as a necessary step to world peace. There will be no peace until the world's needs are satisfied, energy being the main cause of political conflict. As for feasibility, if a ground-to-space-to-ground laser can destroy a moving missile, a solar-powered space-to-ground laser can charge a land-based

energy collection system. The collector design could be mechanically simple, allowing easy erection in even the most remote parts of the world.

It is sad that we feel we must wait for spin-offs to a military program. Perhaps the Europeans will use the offer of the space shuttle to develop this technology. It would benefit all.

Continuation of the present situation would lead to destruction, with or without nuclear war. No one, no hopes, would suggest killing off the 40 percent of humanity whom we are at present unable to support.

MARK ROTHERMEL, Konstanz, West Germany.

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Hot Debate Flares in Poland Over Charges of Anti-Semitism During World War II

By Michael T. Kaufman
New York Times Service

WARSAW — A passionate debate over whether Poles bear any special responsibility for the deaths of millions of Jews in World War II has flared in Poland's most influential Roman Catholic newspaper.

In the paper, Tygodnik Powszechny, an article that is a soul-searching confession of shame and a call for the acknowledgment of the country's anti-Semitic past has provoked outraged charges of anti-Polish libels and proud assertions of national honor.

The debate has generated such heat that the editors of Tygodnik Powszechny, a Catholic weekly that is also the country's most important independent journal, recently told readers that they had received many letters "whose emotional language and tone do not deserve publication."

Contrary to the assertion of some of our correspondents, the editors said, "the letters that anti-Semitism continues to exist in the country, even though today there are practically no Jews left in Poland."

The article that touched off the controversy appeared on the first page of the paper in

January under the title, "Poor Poles Look at the Ghetto."

In the article, Jan Blonski, a well-known literary critic, agonized over what the moral response and attitude of Poles should be to the genocide of Jews that took place at camps in Poland within the memory of many still alive.

Mr. Blonski sought to draw distinctions between the natural increase of Jews in Poland in the 18th and 19th centuries as proof that they were better off in Poland than elsewhere.

But against these facts Mr. Blonski cited two overriding images from the poetry of Czeslaw Milosz, the Nobel Prize-winning Polish émigré writer.

The first, from a poem called "Campo di Fiori," deals with a Sunday in Warsaw in 1943

when Polish families strolled streets and their children rode on a merry-go-round outside the walls of the burning ghetto.

He conceded that the risk was great for Christian Poles, as they were "next in line to the gas chambers." He noted that, since the Middle Ages, Poland invited Jews to settle when other European states expelled them.

And he also recalled the view of historians

who said that the Jews were "the only ones who saved Poland from total annihilation."

The poet ends the second poem with an expression of a guilt that links passivity to collaboration. He wrote:

What am I going to say, me a Jew of the New Testament
Who has been waiting for 2,000 years for Jesus to return?

My broken body will betray me in his sight,
And He will include me, uncircumcised, among the accomplices of death.

Mr. Blonski said that in moral terms, the issues suggested in the poems demanded explanation.

"And how is this to be done?" he asked. "To clean Cain's field, we must first remember Abel. Abel did not live apart. He lived in our house, on our soil. His blood remains on the walls and has sunk into the soil whether we want it or not. It has penetrated our memory

and ourselves, thus we must purify ourselves by seeing ourselves truly. Without that, the house, the soil and ourselves shall remain branded."

The strongest rebuttal so far has come from Wladyslaw Sila-Nowicki, 74, a lawyer who took part in the wartime resistance and served five years in prison after the war for his anti-Communist underground activities. He was once an adviser to the Solidarity free trade union.

In his response, printed in the Catholic weekly, Mr. Sila-Nowicki attacked Mr. Blonski for unintentionally supporting anti-Polish propaganda aimed not at the government but at the nation.

Of the war, he wrote: "What could we do? Attack the concentration camps with the forces we had? To suffer enormous losses and doom all those in the camps? Let no one lecture us about unfulfilled moral duties, and let not Mr. Blonski say, as he did in his extremely harmful and untrue piece, that we came close to the crime of genocide."

At another point, responding to Mr. Blonski's accusation that more might have been done to rescue Jews, Mr. Sila-Nowicki wrote, "The passivity of Jews and their submission to Ger-

man orders was the first and basic impediment preventing our giving greater help to Jews."

He mentioned his own associations with people he described as Jewish friends who died at the hands of the Nazis.

There is a large body of Polish opinion that would not consider itself anti-Semitic but that emotionally supports Mr. Sila-Nowicki's views and would regard Mr. Blonski as a defiler of national honor. Such people see themselves as members of a victimized nation, oppressed by both Nazi and Soviet occupiers and often betrayed by the West, for whose support it yearns.

But there also are people with such assumptions who would qualify as anti-Semites. Mr. Sila-Nowicki's critics are divided on how to categorize him. Those who regard the letter as an expression of an old-fashioned bigotry point to his use of phrases suggesting collective failings and guilt of Jews.

For example, Mr. Sila-Nowicki, after saying the persistence of Jewish was cultural and not biological, wrote, "In their veins flows only 1 percent of the blood of those people who shout hosanna to the son of David and later went on to shout, 'Crucify him, crucify him!'"

In Nigeria, an Economic Recovery Fueled by Pride

By Blaine Harden
Washington Post Service

LAGOS — This is the African country that parlayed a \$100 billion windfall into a national curse.

The oil boom from 1973 to 1981 crippled the livelihoods of the farming majority, hooked city people on subsidized imports and saddled the nation with an estimated \$18 billion debt. As Nigerians have acknowledged, it was their own inept, corrupt government that squandered much of the oil money.

So it borders on the astonishing that Nigeria, having been jolted by two military coups in the past 38 months, is now being lauded by the World Bank and the United States as a role model in Africa for free-market changes and responsible government.

"Nigeria has embarked on the most comprehensive economic adjustment program in Africa so far," said Ishtar Hussain, the representative here for the World Bank. "We were never expecting them to do as much as they have done."

Nigeria's transformation was not entirely voluntary. It was forced by last year's collapse of oil prices. Foreign debt became unpayable and shippers stopped delivering goods. Economic activity almost ground to a halt.

But the past year's radical economic change appears to be more than a last-chance maneuver to avoid default. It derives from the distinctively obdurate nationalism of the Nigerian people and the deft manipulation of that nationalism by Major General Ibrahim Babangida, the country's leader.

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Ibrahim Babangida

"Nigerians are so self-centered that they don't make rational decisions when the choices are imposed on them from the outside," said Tony Momoh, minister of information and culture. "Nigerians believe there are things superior to reasoning. Things such as pride."

It was pride that kept Nigeria from accepting a loan of \$2.4 billion from the International Monetary Fund in 1983, the year General Babangida seized power in a blood-

less coup. The money probably would have prevented the debt crunch that brought this country to its knees last year.

Shortly after coming to power, General Babangida opened what became known as the "Great IMF Debate." In the debate, a uniquely Nigerian plebiscite-cum-shouting match that was carried on in the pages of the country's daily press, it soon became clear that the public saw the International Monetary Fund and its demand for economic reform as insidious instruments of greedy Westerners.

In addition, many Nigerians, having watched their leaders waste billions of dollars of oil money, said a loan would only increase the national debt by allowing officials to squirrel away more public funds in foreign banks.

General Babangida abided by the public's will and rejected the IMF loan. Then he began to put in place what Western economists call the most rigorous free-market changes ever adopted in an African country.

The U.S. ambassador, Princeton N. Lyman, said, "It has registered on a lot of people in the U.S. government that this is one of the most exciting economic reforms in Africa."

The changes have led to a drastic devaluation of the naira, the currency whose one-to-one parity with the dollar had been considered a symbol of Nigerian pride. A dollar now buys nearly four naira.

The cherished perquisites of the country's middle class, which had

been subsidized by the overvalued naira, fell victim to market forces. Car prices tripled. International air fares doubled. School fees quadrupled for the 100,000 Nigerian families who send their children to study abroad.

The changes abolished an import licensing system that had made millions of dollars of hundreds of Nigerians who used relatives and friends in the Ministry of Trade to obtain import licenses and resell them to businessmen desperate to import spare parts. Now businessmen simply import what they can pay for.

In broad outline, the reform package penalized the urban elite in favor of farmers. This is a risky business in Africa, where political power is concentrated among city dwellers.

And while the changes embraced the free enterprise theology that the International Monetary Fund, the World Bank and the U.S. government are preaching across Africa, General Babangida appears to have persuaded a large portion of the Nigerian public that his reforms are "home-grown."

In his 1987 budget speech, he said that "our structural adjustment program was produced by Nigerians for Nigerians."

"It is a political masterpiece," said Mr. Hussain, the World Bank official. "If he had done exactly the same thing under the aegis of the IMF, there would have been riots or a coup d'état."

The economic adjustment package has so pleased creditors that Nigeria has been able to reschedule

SWAPO Leader Assails U.S. Plan For Base in Zaire

Reuters

HARARE, Zimbabwe — Sam Nujoma, a guerrilla leader in South-West Africa, has criticized a U.S. proposal to use a military base in Zaire and urged the Organization of African Unity to intervene and halt the move.

He said the United States could use the base to intervene in the continent, especially in southern Africa. The base, Mr. Nujoma added, "is a threat to Africa as a whole because the front-line states could become victims of American actions like the bombing of Libya."

Mr. Nujoma, head of the South-West Africa People's Organization, made the statement Saturday to the Zimbabwean news agency Zina. The front-line states are Angola, Botswana, Tanzania, Mozambique, Zambia and Zimbabwe — are leading black Africa's fight against white-ruled South Africa.

The United States has said it is considering asking Zaire for access to a military base at Kamina, built by Belgium more than 20 years ago, for unspecified use in the future.

Mr. Nujoma, who was in Zimbabwe for talks with Prime Minister Robert Mugabe, arrived in Spain on Sunday for a four-day visit and a meeting with Prime Minister Felipe González.

BEIRUT: Iran and Syria at Odds

(Continued from Page 1)

Beirut. They were kidnapped in Beirut in January.

The Syrian deployment has increased pressure in the Christian sector for militiamen to turn their positions over to the Lebanese Army.

President Amal Gemayel, a Maronite Catholic who is now engaged in negotiations with the Syrians, has instructed his military aides to draw up a security plan for Christian East Beirut with the eventual aim of reuniting the city.

On the East Beirut side of the Green Line dividing the city, Christian militiamen stand guard alongside Christian units of the Lebanese Army. The gunmen's presence on the dividing line has been given as a reason for the delay in reopening more crossing points.

Press reports said that under a plan sponsored by Mr. Gemayel, combatants of the Christian militia

known as the Lebanese Forces would withdraw from the streets in East Beirut to enable Christian army contingents to take charge of law and order. Simultaneously, militiamen would leave the government offices they are occupying and hand the port of Beirut over to the legitimate authorities.

Amal Shake-Up Reported — Nabih Berri, the leader of the Shiite Amal militia, expelled a former second in command on Saturday and dismissed other officers of the movement in southern Lebanon. The Associated Press reported from Beirut.

The shake-up came after an abortive attempt by Hassan Hashem, Amal's former deputy commander, to wrest control of Amal in southern Lebanon on March 1. An official Amal statement said that Mr. Hashem was expelled while four other southern regional Amal officers were dismissed.

SHULTZ: Hopeful on Arms Talks — (Continued from Page 1)

them all sorts of information about how wonderful everything could be if only so-and-so happens and they're ready to do this and that."

"And all that is interesting," he said, "and we try to take it all in and look at it and make use of it. However, we also keep making the point that none of that is operational. The only things that are operational are things that they put into play in an official channel. And the basic official channel is Geneva."

He declined to give details on what had been put into play concerning strategic arms, but he said that some proposals from Reykjavik were "inventoried and put in a posture where you could really work on them" during the latest round of Geneva talks.

Mr. Shultz's trip to Moscow, planned for April 13-16, was scheduled after Mr. Gorbachev announced a week ago that he would no longer link the elimination of medium-range missiles in Europe to a broader strategic arms accord.

As a result, Mr. Shultz said, "there seems to be some prospect, perhaps a pretty good prospect, of getting something worked out in the INF field." The medium-range missiles are called intermediate nuclear forces, or INF.

Mr. Shultz added: "We place great importance on the 50-percent cuts in strategic arms, and we want to keep that very much in the forefront. And the prospects there, of course, are less clear, but that doesn't make it any less important to work on them."

[In Washington, Senator Sam Nunn, Democrat of Georgia and chairman of the Senate Armed Services Committee, welcomed progress Sunday on negotiations on medium-range missiles as "in our medium-term interest." But he also warned that such a treaty would imperil the U.S. and allied position in Europe because of Soviet superiority in conventional, or nonnuclear, forces and chemical weapons.]

[Appearing on a television interview program, Mr. Nunn said, "We view progress in the 1970s in had an imbalance in and chemical arms 'before the Soviets ever put in

IMMUNITY: Grants Discussed

(Continued from Page 1)

ry evidence that may prove relevant. Some handwritten presidential notes that may bear on the case have not been examined or provided to investigators, according to informed sources.

The White House's failure until now to take even routine legal precautions has surprised many of the lawyers associated with the Iran-contra investigations. At least six of those attorneys have expressed amazement that the White House has been handing out internal documents to various investigators, often without reading them or making copies.

The possible testimony of Admiral Poindexter is seen as potentially the most serious problem for the president, one source said.

Admiral Poindexter has told friends that he is not ashamed of his actions or sorry for anything that happened while he was national security adviser. He has said he expects to be vindicated by history.

He told one close U.S. Navy associate in December that his actions followed "the chain of command," according to this associate, who declined to be identified.

A well-placed legal source said that in the first weeks after his departure from the White House on Nov. 25, Admiral Poindexter and his attorneys planned to construct a legal defense around his contention that on two occasions in 1986 he told Mr. Reagan that the arms sales to Iran were generating money for the Contras.

According to this source, Admiral Poindexter did not tell Mr. Reagan there was an illegal diversion of money, but rather that funds for the Contras contributed by Iranians or Israelis were "an auxiliary benefit" of the arms sales. The source declined to say if this is the defense Admiral Poindexter plans to use.

Admiral Poindexter and his attorneys have repeatedly declined to comment. A friend of Admiral Poindexter said Saturday that the ongoing investigations have upset the "straight-arrow" admiral and that "his insides are tearing him up."

The Tower review commission report indicates that Colonel North believed Mr. Reagan was aware of many of his activities, including the arms-for-hostages dealings with Iran and Colonel North's help for private fund-raising for the rebels fighting Nicaragua's Sandinist government.

The Tower report contains an April 1986 memorandum that Colonel North prepared for Mr. Reagan, in which Colonel North said that \$12 million from one Iranian shipment would be provided to the Contras. The Tower board found no evidence that Mr. Reagan read or received the memo.

Three sources said last week that Colonel North is asserting to his friends in the U.S. Marine Corps that he has remained silent thus far to protect the president. According to another source, Colonel North's lawyer, Brendan J. Sullivan Jr., has advised him that if he keeps quiet, he can stay out of prison.

He and his friends conceded that they did not have a high regard for hippies and punks. But they said the concept of a vigilante squad had been fabricated.

Mr. Mikheyev is one of a dozen youngsters who work out regularly in a makeshift gym in the basement of a five-story apartment building. The police say they have counted more than 50 such clubs involving about 500 young enthusiasts in Lyubertsy, a working-class suburb of 360,000 people.

TOUGH: Moscow's Body-Builders — (Continued from Page 1)

Soviet way of life," one of the Lyubertsy reportedly told the Ogonyok writer. "We want to drive them from the capital."

The author, in the end, was uncertain whether the Lyubertsy were rightist ideologues, bored teenagers, or hoodlums manipulated by grownups grooming the youngsters for criminal activities. But he suggested that the conformist Soviet authorities had turned a blind eye to the victims.

"Let's think about this," he wrote. "Didn't we ourselves create the situation where certain groups of teen-agers don't believe they are entitled to apply for the protection of the law?"

Soviet officials at first contributed to the spread of Lyubertsy lore. When police plainclothesmen attacked Jewish demonstrators on a Moscow pedestrian mall last month, a Soviet government spokesman cited the Ogonyok article and asserted the violence was the work of suburban vigilantes.

But in the last week, Soviet newspapers have attacked the Lyubertsy article with ferocity.

SHARE: Academics' Plea

(Continued from Page 1)

chambers of the Parliament, but Mr. Botha has ruled out setting up a fourth chamber for the nation's black majority.

The academics said their group, known as "Discussion Group '85," was formed in October 1985 because of their concern over the security situation.

Parties on the left and right, meanwhile, stepped up efforts to form alliances for the May election. Colin Eglin, leader of the liberal Progressive Federal Party, launched his party's campaign Saturday with an appeal for other politicians committed to reforming apartheid to join in an alliance.

Rightists in Election Pact — Andries Treurnicht, the leader of the extreme right Conservative Party of South Africa, said Sunday that he had conditionally accepted a unity pact offered by Eugene Terre Blanche, the leader of the paramilitary Afrikaner Resistance Movement, Agence France-Press reported from Johannesburg.

The tentative agreement moved the extreme right closer to running a unified campaign in the elections.

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Dollar Straights

Issuer	Con	Mat	Price	Yld	Mat	Trav
Australia						
Aust Govt	12%	9/12/94	7.87	+61		
Aust Govt	10%	9/12/94	7.28	+25		
Aust Govt	11%	9/12/94	8.14	+41		
Aust Govt	12%	9/12/94	8.98	+57		
Aust Govt	13%	9/12/94	9.82	+73		
Aust Govt	14%	9/12/94	10.66	+89		
Aust Govt	15%	9/12/94	11.50	+105		
Aust Govt	16%	9/12/94	12.34	+121		
Aust Govt	17%	9/12/94	13.18	+137		
Aust Govt	18%	9/12/94	14.02	+153		
Aust Govt	19%	9/12/94	14.86	+169		
Aust Govt	20%	9/12/94	15.70	+185		
Aust Govt	21%	9/12/94	16.54	+201		
Aust Govt	22%	9/12/94	17.38	+217		
Aust Govt	23%	9/12/94	18.22	+233		
Aust Govt	24%	9/12/94	19.06	+249		
Aust Govt	25%	9/12/94	19.90	+265		
Aust Govt	26%	9/12/94	20.74	+281		
Aust Govt	27%	9/12/94	21.58	+297		
Aust Govt	28%	9/12/94	22.42	+313		
Aust Govt	29%	9/12/94	23.26	+329		
Aust Govt	30%	9/12/94	24.10	+345		
Aust Govt	31%	9/12/94	24.94	+361		
Aust Govt	32%	9/12/94	25.78	+377		
Aust Govt	33%	9/12/94	26.62	+393		
Aust Govt	34%	9/12/94	27.46	+409		
Aust Govt	35%	9/12/94	28.30	+425		
Aust Govt	36%	9/12/94	29.14	+441		
Aust Govt	37%	9/12/94	29.98	+457		
Aust Govt	38%	9/12/94	30.82	+473		
Aust Govt	39%	9/12/94	31.66	+489		
Aust Govt	40%	9/12/94	32.50	+505		
Aust Govt	41%	9/12/94	33.34	+521		
Aust Govt	42%	9/12/94	34.18	+537		
Aust Govt	43%	9/12/94	35.02	+553		
Aust Govt	44%	9/12/94	35.86	+569		
Aust Govt	45%	9/12/94	36.70	+585		
Aust Govt	46%	9/12/94	37.54	+601		
Aust Govt	47%	9/12/94	38.38	+617		
Aust Govt	48%	9/12/94	39.22	+633		
Aust Govt	49%	9/12/94	40.06	+649		
Aust Govt	50%	9/12/94	40.90	+665		
Aust Govt	51%	9/12/94	41.74	+681		
Aust Govt	52%	9/12/94	42.58	+697		
Aust Govt	53%	9/12/94	43.42	+713		
Aust Govt	54%	9/12/94	44.26	+729		
Aust Govt	55%	9/12/94	45.10	+745		
Aust Govt	56%	9/12/94	45.94	+761		
Aust Govt	57%	9/12/94	46.78	+777		
Aust Govt	58%	9/12/94	47.62	+793		
Aust Govt	59%	9/12/94	48.46	+809		
Aust Govt	60%	9/12/94	49.30	+825		
Aust Govt	61%	9/12/94	50.14	+841		
Aust Govt	62%	9/12/94	50.98	+857		
Aust Govt	63%	9/12/94	51.82	+873		
Aust Govt	64%	9/12/94	52.66	+889		
Aust Govt	65%	9/12/94	53.50	+905		
Aust Govt	66%	9/12/94	54.34	+921		
Aust Govt	67%	9/12/94	55.18	+937		
Aust Govt	68%	9/12/94	56.02	+953		
Aust Govt	69%	9/12/94	56.86	+969		
Aust Govt	70%	9/12/94	57.70	+985		
Aust Govt	71%	9/12/94	58.54	+1001		
Aust Govt	72%	9/12/94	59.38	+1017		
Aust Govt	73%	9/12/94	60.22	+1033		
Aust Govt	74%	9/12/94	61.06	+1049		
Aust Govt	75%	9/12/94	61.90	+1065		
Aust Govt	76%	9/12/94	62.74	+1081		
Aust Govt	77%	9/12/94	63.58	+1097		
Aust Govt	78%	9/12/94	64.42	+1113		
Aust Govt	79%	9/12/94	65.26	+1129		
Aust Govt	80%	9/12/94	66.10	+1145		
Aust Govt	81%	9/12/94	66.94	+1161		
Aust Govt	82%	9/12/94	67.78	+1177		
Aust Govt	83%	9/12/94	68.62	+1193		
Aust Govt	84%	9/12/94	69.46	+1209		
Aust Govt	85%	9/12/94	70.30	+1225		
Aust Govt	86%	9/12/94	71.14	+1241		
Aust Govt	87%	9/12/94	71.98	+1257		
Aust Govt	88%	9/12/94	72.82	+1273		
Aust Govt	89%	9/12/94	73.66	+1289		
Aust Govt	90%	9/12/94	74.50	+1305		
Aust Govt	91%	9/12/94	75.34	+1321		
Aust Govt	92%	9/12/94	76.18	+1337		
Aust Govt	93%	9/12/94	77.02	+1353		
Aust Govt	94%	9/12/94	77.86	+1369		
Aust Govt	95%	9/12/94	78.70	+1385		
Aust Govt	96%	9/12/94	79.54	+1401		
Aust Govt	97%	9/12/94	80.38	+1417		
Aust Govt	98%	9/12/94	81.22	+1433		
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Aust Govt	13%	9/12/94	9.82	+73		
Aust Govt	14%	9/12/94	10.66	+89		
Aust Govt	15%	9/12/94	11.50	+105		
Aust Govt	16%	9/12/94	12.34	+121		
Aust Govt	17%	9/12/94	13.18	+137		
Aust Govt	18%	9/12/94	14.02	+153		
Aust Govt	19%	9/12/94	14.86	+169		
Aust Govt	20%	9/12/94	15.70	+185		
Aust Govt	21%	9/12/94	16.54	+201		
Aust Govt	22%	9/12/94	17.38	+217		
Aust Govt	23%	9/12/94	18.22	+233		
Aust Govt	24%	9/12/94	19.06	+249		
Aust Govt	25%	9/12/94	19.90	+265		
Aust Govt	26%	9/12/94	20.74	+281		
Aust Govt	27%	9/12/94	21.58	+297		
Aust Govt	28%	9/12/94	22.42	+313		
Aust Govt	29%	9/12/94	23.26	+329		
Aust Govt	30%	9/12/94	24.10	+345		
Aust Govt	31%	9/12/94	24.94	+361		
Aust Govt	32%	9/12/94	25.78	+377		
Aust Govt	33%	9/12/94	26.62	+393		
Aust Govt	34%	9/12/94	27.46	+409		
Aust Govt	35%	9/12/94	28.30	+425		
Aust Govt	36%	9/12/94	29.14	+441		
Aust Govt	37%	9/12/94	29.98	+457		
Aust Govt	38%	9/12/94	30.82	+473		
Aust Govt	39%	9/12/94	31.66	+489		
Aust Govt	40%	9/12/94	32.50	+505		
Aust Govt	41%	9/12/94	33.34	+521		
Aust Govt	42%	9/12/94	34.18	+537		
Aust Govt	43%	9/12/94	35.02	+553		
Aust Govt	44%	9/12/94	35.86	+569		
Aust Govt	45%	9/12/94	36.70	+585		
Aust Govt	46%	9/12/94	37.54	+601		
Aust Govt	47%	9/12/94	38.38	+617		
Aust Govt	48%	9/12/94	39.22	+633		
Aust Govt	49%	9/12/94	40.06	+649		
Aust Govt	50%	9/12/94	40.90	+665		
Aust Govt	51%	9/12/94	41.74	+681		
Aust Govt	52%	9/12/94	42.58	+697		
Aust Govt	53%	9/12/94	43.42	+713		
Aust Govt	54%	9/12/94	44.26	+729		
Aust Govt	55%	9/12/94	45.10	+745		
Aust Govt	56%	9/12/94	45.94	+761		
Aust Govt	57%	9/12/94	46.78	+777		
Aust Govt	58%	9/12/94	47.62	+793		
Aust Govt	59%	9/12/94	48.46	+809		
Aust Govt	60%	9/12/94	49.30	+825		
Aust Govt	61%	9/12/94	50.14	+841		
Aust Govt	62%	9/12/94	50.98	+857		
Aust Govt	63%	9/12/94	51.82	+873		
Aust Govt	64%	9/12/94	52.66	+889		
Aust Govt	65%	9/12/94	53.50	+905		
Aust Govt	66%	9/12/94	54.34	+921		
Aust Govt	67%	9/12/94	55.18	+937		
Aust Govt	68%	9/12/94	56.02	+953		
Aust Govt	69%	9/12/94	56.86	+969		
Aust Govt	70%	9/12/94	57.70	+985		
Aust Govt	71%	9/12/94	58.54	+1001		
Aust Govt	72%	9/12/94	59.38	+1017		
Aust Govt	73%	9/12/94	60.22	+1033		
Aust Govt	74%	9/12/94	61.06	+1049		
Aust Govt	75%	9/12/94	61.90	+1065		
Aust Govt	76%	9/12/94	62.74	+1081		
Aust Govt	77%	9/12/94	63.58	+1097		
Aust Govt	78%	9/12/94	64.42	+1113		
Aust Govt	79%	9/12/94	65.26	+1129		
Aust Govt	80%	9/12/94	66.10	+1145		
Aust Govt	81%	9/12/94	66.94	+1161		
Aust Govt	82%	9/12/94	67.78	+1177		
Aust Govt	83%	9/12/94	68.62	+1193		
Aust Govt	84%	9/12/94	69.46	+1209		
Aust Govt	85%	9/12/94	70.30	+1225		
Aust Govt	86%	9/12/94	71.14	+1241		
Aust Govt	87%	9/12/94	71.98	+1257		
Aust Govt	88%	9/12/94	72.82	+1273		
Aust Govt	89%	9/12/94	73.66	+1289		
Aust Govt	90%	9/12/94	74.50	+1305		
Aust Govt	91%	9/12/94	75.34	+1321		
Aust Govt	92%	9/12/94	76.18	+1337		
Aust Govt	93%	9/12/94	77.02	+1353		
Aust Govt	94%	9/12/94	77.86	+1369		
Aust Govt	95%	9/12/94	78.70	+1385		
Aust Govt	96%	9/12/94	79.54	+1401		
Aust Govt	97%	9/12/94	80.38	+1417		
Aust Govt	98%	9/12/94	81.22	+1433		
Aust Govt	99%	9/12/94	82.06	+1449		
Aust Govt	100%	9/12/94	82.90	+1465		

Euro Straights

Canada	10%	9/12/94	7.81	
Canada	12%	9/12/94	7.91	
Canada	13%	9/12/94	8.01	
Canada	14%	9/12/94	8.11	
Canada	15%	9/12/94	8.21	
Canada	16%	9/12/94	8.31	
Canada	17%	9/12/94	8.41	
Canada	18%	9/12/94	8.51	
Canada	19%	9/12/94	8.61	
Canada	20%	9/12/94	8.71	
Canada	21%	9/12/94	8.81	
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Canada	36%	9/12/94	10.31	
Canada	37%	9/12/94	10.41	
Canada	38%	9/12/94	10.51	
Canada	39%	9/12/94	10.61	
Canada	40%	9/12/94	10.71	
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Canada	189%	9/12/94	25.61	
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Canada	191%	9/12/94	25.81	
Canada	192%	9/12/94	25.91	
Canada	193%	9/12/94	26.01	
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Canada	196%	9/12/94	26.31	
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Canada	259%	9/12/94	32.61	
Canada	260%	9/12/94	32.71	
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Canada	262%	9/12/94	32.91	
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Canada	279%	9/12/94	34.61	
Canada	280%	9/12/94	34.71	
Canada	281%	9/12/94	34.81	
Canada	282%	9/12/94	34.91	
Canada	283%	9/12/94	35.01	
Canada	284%	9/12/94	35.11	
Canada	285%	9/12/94	35.21	
Canada	286%	9/12/94	35.31	
Canada	287%	9/12/94	35.41	
Canada	288%	9/12/94	35.51	
Canada	289%	9/12/94	35.61	
Canada	290%	9/12/94	35.71	
Canada	291%	9/12/94	35.81	
Canada	292%	9/12/94	35.91	
Canada	293%	9/12/94	36.01	
Canada	294%	9/12/94	36.11	

PERSONAL INVESTING

FOCUS

Futures Markets:
A Contract Glut

ON PAPER, THE PRODUCT looked terrific: a futures contract based on the U.S. Consumer Price Index. Individuals and companies, experts reasoned, are always worried about inflation and could use the instrument to hedge their risk. At the same time, anyone with an opinion about where prices were headed could place a speculative bet.

In the trading pits at New York's Coffee, Sugar & Cocoa Exchange, however, the reality has proved somewhat different. The contract has drawn little interest since its debut in 1985, and efforts to resuscitate it have so far failed to stir investors.

"I had no idea it would be such a dud," says Paul Samuelson, a noted Massachusetts Institute of Technology economist who had voiced some early support for the contract. "Obviously the fact that inflation has been modest is part of the story."

The CPI futures are hardly alone in their fate. Mark Powers, a leading consultant to U.S. exchanges, says that at least 80 percent of the roughly 200 futures contracts introduced since 1970 have foundered, and the picture has been only somewhat brighter for new options contracts. Many of the new instruments suffer from poor timing or faulty market research, while others may simply seem too complicated.

NEVERTHELESS, THE NATION'S competing options and futures exchanges continue to churn out a parade of new instruments, lured by the spectacular success of a handful of existing instruments. At the futures exchanges alone, at least 10 new instruments are in the planning stages.

And, increasingly, the exchanges are becoming more sophisticated in pitching their wares. The American Stock Exchange, which also trades options on stocks and stock indexes, recently launched its first television advertising, for example, and the Philadelphia Stock Exchange has been running video ads for its currency options on certain international air flights.

But hype alone will not create a market for a new instrument. The Coffee, Sugar & Cocoa Exchange last year went so far as to offer a free vacation in Bolivia (which then had the world's highest inflation rate) as first prize in a promotional contest to spotlight the CPI futures, but little additional trading resulted. This year, as days pass with no trading at all, the exchange is tinkering with the contract's specifications.

Unquestionably the most lavish, and failed, marketing in recent years stemmed from the 1985 introduction of futures based on indexes of over-the-counter stocks. After the Chicago Board of Trade, the world's largest futures exchange, and the Chicago Mercantile Exchange, the second-largest, spent a total of at least \$4 million pushing competing instruments, a simple truth became clear: Traders had little interest in one such contract, let alone two. "Both exchanges shot themselves in the foot," says William Murschel, a spokesman for the Board of Trade.

Last year's offering of new instruments was decidedly lackluster. Futures based on an index of commodity prices got off to a rocky start on the New York Futures Exchange, while trading in new options on an index of volatile stocks was slow at the New York Stock Exchange. Two exchanges served up futures on the European currency unit, but even the leader, the New York Cotton Exchange, reported only modest volume.

Perhaps the most successful innovation last year was a new version of an old instrument: options on the Standard & Poor's 500-stock index, traded on the Chicago Board Options Exchange. Partly in response, the American Stock Exchange launched options on an index of 75 stocks commonly held by institutional investors. The Chicago Board of Trade liked that index enough to lay plans for futures contracts on the index.

DESPITE THE MIXED PERFORMANCE, the parade shows no signs of stopping anytime soon. The Board of Trade's plans have a decidedly international flavor, including futures on three indexes of British, Canadian and Japanese stocks, as well as futures based on Yen bonds and Eurobonds. The New York Futures Exchange is preparing contracts on three other stock indexes.

The Chicago Merc and the New York Cotton Exchange are both planning futures on indexes of Treasury securities, while the Commodity Exchange in New York and the Board of Trade are readying futures on indexes of corporate bonds. The New York Mercantile Exchange, which successfully launched crude-oil futures last year, is looking to options on heating-oil futures.

All this might seem excessive, and the sheer abundance of instruments can cause some real problems. "It's difficult to educate brokers and users about each new product," says Jack Baraband, director of futures at Gruntal & Co. Mr. Powers, the consultant, adds, "Consumers can get overwhelmed by what I call futures-shock syndrome."

But these and other experts generally applaud the exchanges' competitive efforts on the new instruments. "It's good," he says, "because it increases the front." "It's good," says Andrew Harnstone-Rakowski, a user's choice. "It's good," says Morgan Investment Management president at J.P. Morgan, the economist, adds that any problems arising from unnecessary instruments "will cure themselves by Darwinian forces."

Phil Roosevelt

UPDATE

Sterling's Rise

IN THE ABSENCE of the speculative fervor that prevailed before last month's vague Group of Five agreement to stabilize the dollar, currency markets are turning their attention to fundamentals in general and the British pound in particular.

Brendan Brown, chief international economist for County Bank in London, cites the wide spread between British and continental interest rates as a major reason for sterling's popularity. Long-term government bonds in Britain are yielding just under 10 percent. Such bonds in West Germany and Japan are yielding about 6 percent and 5 percent, respectively. Moreover, Mr. Brown notes "a growing perception that the British economy is doing well." He expects that the British economy to average 3 percent or more this economic growth to average 3 percent for Germany.

Despite expectations of a slight recovery in the dollar and a 1-percentage-point reduction in Britain's base lending rates, Mr. Brown sees sterling remaining relatively attractive at around \$1.50 in the near term. Against the Deutsche mark, he believes that the pound will fluctuate in a narrow band from 2.8 to 2.9 marks. □

John Meehan

Hong Kong's New Stature Among Investors

Anxieties about the future have been put aside as the rally charges ahead.

By Patrick Smith

IN THE CROWDED FINANCIAL DISTRICT known simply as Central, market talk is on everyone's lips these days. Stock tickers in the windows of local banks draw swarms of investors at lunch hour. Brokers and analysts are looking happy but distinctly haggard.

These are boom times for the Hong Kong stock market. The local Hang Seng Index, which has been challenging its record regularly in recent weeks, has risen 60 percent since mid-1986 and is up more than 10 percent in just the first two months of this year. Volume is also hitting peaks; new issues are consumed as fast as they are introduced.

It is a classic surge in many respects, driven by low interest rates, excess liquidity and a healthy economy. But the extraordinary ascent this market began eight months ago also marks a milestone in its effort to gain recognition among international equity investors.

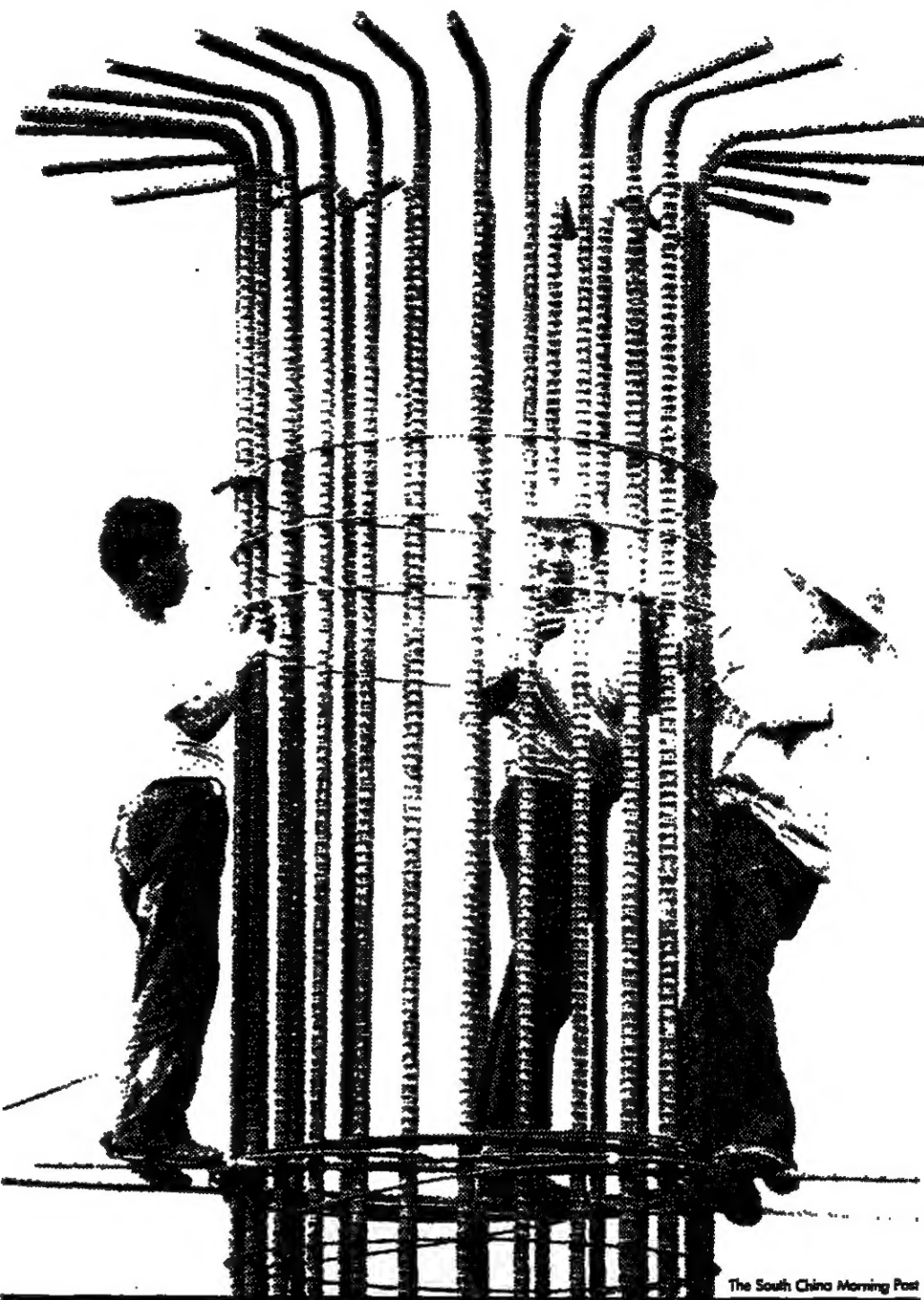
As in no other boom before it, this one has been fueled less by local speculation than by solid institutional buying from Europe, the United States, Japan and Australia. Long considered too volatile for most foreign investors, Hong Kong can no longer be ignored, as it was only a year or two ago, in any diversified equity portfolio.

"People woke up to Hong Kong last summer," says Duncan F.F. Mount, managing director of Gartmore (Hong Kong) Ltd., a unit of the London-based fund management concern. "Ever since, we've been going through a basic reassessment of this market's international rating."

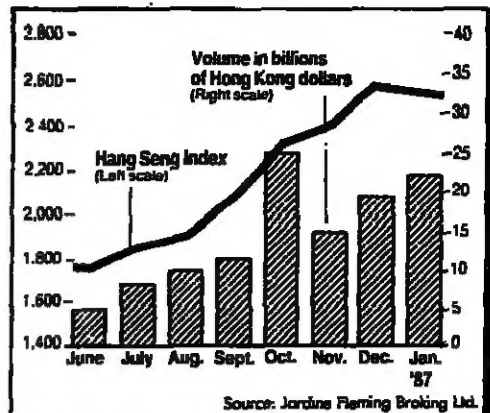
In part this reflects the relative attractiveness of Hong Kong's average price-earnings multiple, which now stands at 15 or so. Although this is close to the market's historic high, many analysts view it as unrealistically low given the current level of cash in the hands of big international investors, low interest rates worldwide and low inflation rates.

"The question is, should Hong Kong be trading at 15 times earnings when Tokyo is at 50 and Singapore at 30?" Mr. Mount says.

Hong Kong, which has linked its currency to the U.S. dollar since late 1983, has also benefited from the recent shift of funds from strong-currency markets, such as West Germany, into markets denominated in weak currencies. And while local investors were net



The South China Morning Post



Workers tying up reinforcement rods at a Hong Kong building site. Property stocks account for a big portion of the stock market's capitalization.

sellors a year ago, they have now joined foreign buyers in pushing up stock prices.

Hong Kong has positioned itself well for the current equity boom. Last April, the territory's four separate exchanges were unified and computers replaced the blackboards and the old "open outcry" system. Together with a set of tighter regulations and supervisory procedures, this has been intended to make the market more hospitable to institutional investors and foreign individuals.

There is little question that the exchange's new look has helped. A recent influx of overseas securities dealers—there are now 16, with more on the way—has left Hong Kong, if anything, over-brokered. And as a broad indicator of overseas participation, daily volume is now routinely above 1 billion Hong Kong dollars (\$128 million), more than double its level only a year ago.

Along with the market's new sense of maturity, its basic role is also evolving. Guangdong Enterprises (Holdings) Ltd., a Chinese conglomerate based in neighboring Guangdong province, is about to become the first mainland entity to list its shares in Hong Kong. Bei Fuse Ltd., a small electronics concern that is expanding its Asian activities, will soon become the first American company to do so.

Reflecting the gradual modernization of management techniques among local companies, more of them are also coming to the market, and analysts judge their offerings to be of higher quality than they would have been even a few years ago.

"These companies are now much more accessible," says David Harding, a director at Thornton Manage-

(Continued on Page 10)

Finding Winners
In the Profit Race

Earnings look healthy, but beware leaning too heavily on the forecasts.

By Alex Barnum

CORPORATE PROFITS, until recently only a side show in the stock market's long-running rally, have become the main attraction on Wall Street. But the key issue for investors will be finding true value among the companies that are fast stealing the limelight with their accelerating profit growth.

Since the beginning of the bull market in 1982, Standard & Poor's list of 500 companies has posted average annual earnings increases of 3.7 percent. By contrast, profits are expected to rise 16.7 percent this year to \$17.09 a share, and another 14.5 percent in 1988, to \$19.56 a share, according to a consensus of Wall Street forecasts compiled by the Institutional Brokers Estimate System.

"The common denominator is that earnings are going to be greater this year," says Eric T. Miller, chief investment officer at Donaldson, Lufkin & Jenrette Securities Corp. "There is no great interest rate or inflation factor driving the market."

The market's emerging stars are corporations that have gone through the painful process of restructuring and streamlining while dramatically improving profit margins.

"A lot of companies," says Alan Greenspan, an economist and president of Townsend-Greenspan & Co., "have been reducing unit costs to the point where any increase in volume of sales would translate into significant improvements in profits."

Also contributing to the brighter profit picture is improved export sales, thanks to the declining dollar and the changing tax structure.

"Tax reform," says Martin D. Sass, president of M.D. Sass Investors Services Inc., "is a good-news, bad-news situation." Although companies lose the investment tax credit this year, he says, they will be more than compensated by the lower marginal tax rate of 34 percent in 1988.

A central issue for investors is how to use the data on earnings. Analysts are wary of buying stocks solely on the basis of projected earnings, partly because of the opportunity of those forecasts: This time last year, for example, the consensus on Wall Street was for



Martin D. Sass: "The cycle will pick up for the computer industry."

an 18 percent rise in profits for companies included in the S&P 500 index, compared with the actual gain of 3 percent, according to IBES.

"In a classic bull market," notes Steven G. Einhorn, head of the investment policy committee at Goldman, Sachs & Co., "earnings follow through," sustaining the market's rise. But if those earnings never materialize, the market, as well as individual stocks, will be punished. Thus analysts agree that most stocks already reflect 1987 earnings estimates. They say they will not begin to focus on 1988 profits until July.

THE QUALITY OF EARNINGS is also important. International Minerals & Chemicals Corp., a major fertilizer maker, recently topped a list of companies that analysts believe will have the biggest increase in profits in 1988. The IBES survey found that, on average, analysts were projecting a profit rise of 1,851 percent for the company next year next year.

But International Minerals is just recovering from an industry recession. With a five-year, negative growth rate of 17.3 percent and a price more than 20 times expected 1988 earnings, the company is not an attractive stock. Stan Deutsch, an analyst at First Boston Corp., does not recommend it, saying it "is not selling on an earnings basis."

One of the best examples of a group that still offers both value and earnings growth is the forest-products industry, analysts say. They are predicting 38 percent growth in profits for this year.

(Continued on Page 11)

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PROFILE

A Jardine Fund Manager's Ebullient View

Alan Smith's portfolio is built around a core of property companies.

By Patrick Smith

HAVE A LOOK AT THIS," Alan H. Smith tells a visitor to his office high above Hong Kong's expansive harbor. With his usual ebullience, the managing director of Jardine Fleming Holdings Ltd. slides a 64-page research report, covering Hongkong & Shanghai Banking Corp., across his conference table.

"How far has this market come?" the 43-year-old portfolio manager asks rhetorically. "Ten years ago we might have put out two pages on the bank — not much more than a description of its branch network. That's one measure."

It is a measure, too, of how far Jardine Fleming has come since it was founded 17 years ago as Hong Kong's first home-grown merchant bank. "JF," as the firm is commonly known here, has grown into a diversified financial institution. But fund management has emerged as its core business, and that is where much of its recent success has been.

Assets under management grew by 75 percent last year, to \$3.5 billion. Of Jardine's 15 funds, four were among the world's top 12 performers, according to an annual survey conducted by Lipper Analytical Services. All four were invested in Asia.

Mr. Smith, who taught commercial and company law in Nairobi and at Hong Kong University before joining Jardine Fleming in 1973, believes the JF Hong Kong Trust, with assets of \$115 million, would also have made the top dozen had it enjoyed the exchange-rate gains available to yen-denominated funds. As it was, the Hong Kong fund appreciated by 67 percent last year, outpacing the Hang Seng index by almost 20 percentage points.

Although he declines to forecast the Hang Seng's future level, Mr. Smith is confident that it will continue its climb, citing expected strong corporate results this spring that should reduce many price-earnings ratios. As a measure of this confidence, almost one-fifth of the funds JF manages are in the Hong Kong market.

"There's still quite a lot to go for," he says. "At the moment, I see no problems there that will continue its climb, citing expected strong corporate results this spring that should reduce many price-earnings ratios. As a measure of this confidence, almost one-fifth of the funds JF manages are in the Hong Kong market."

Among the possible clouds are a resurgence of protectionist measures aimed against Hong Kong. Jolts from China



Alan Smith: On a risk-reward basis, 'Hong Kong is an excellent investment.'

could also reignite local worries about Hong Kong's future after 1997, when Britain's colonial lease will expire and China will assume sovereignty over the territory. Only two months ago, the forced resignation of Hu Yaobang as head of the Chinese Communist Party sent the market down 160 points in less than two days, although it quickly recovered.

"Local money views 1997 in a personal light, while overseas investors look at it from some distance," Mr. Smith says. "But that's suitable from both points of view, I think."

The risks in each case are different. Local investors, says, should begin to diversify out of Hong Kong, while a typical overseas fund may have a Hong Kong exposure of as much as 5 percent of its total assets. "From a risk-reward perspective, Hong Kong is an excellent investment," Mr. Smith asserts. "It's a bit above average as a risk and well above average in terms of its reward."

As Jardine's recent research effort suggests, Hongkong & Shanghai Bank is high among the stocks Mr. Smith favors. Although he is lukewarm on the sector as a whole, he believes the bank will improve its performance after several years of loss provisions for bad loans in real estate and shipping.

BUT LIKE MOST OTHER fund managers, Mr. Smith is now building Jardine's portfolio around a core of property companies that are positioned to exploit Hong Kong's current environment of low interest rates, low prices and high rents.

Among his selections: Hongkong Land, which is due to complete another of its prime commercial office towers by the end of next year, and Cheung Kong (Holdings), the vehicle of the real estate magnate, Li Ka-shing.

Real estate investors are enjoying positive returns — and that's in contrast to most other markets," Mr. Smith says. "As for Li, he has a proven touch for property in both land and bear environments."

Among the less prominent properties, Mr. Smith mentions Hang Lung Development, Sun Hung Kai Properties, and Sino Land. The last, he says, has substantial interests in the so-called "new towns" that are springing up in Hong Kong's outlying areas.

In the services sector, Mr. Smith is concentrating on Cathay Pacific Airways and Dairy Farm, the Hongkong Land food-retailing subsidiary that was recently spun off. Apart from its own strong growth record, he says, he likes the 50 percent share Dairy Farm has in Maxim's, a fast-expanding restaurant chain.

Mr. Smith is similarly attracted to Café de Coral, a Chinese fast-food chain that was founded in 1969 and went nowhere until a few years ago. Now it is booming, a reflection of evolving tastes among Hong Kong's trendy young.

Industrialists? "As a whole the sector has a bad name, and they're not for everyone to follow," Mr. Smith says with a smile. "But if you get your timing right, they can be very rewarding."

One manufacturer Mr. Smith mentions happily is Lai Sun Garments, which has recently diversified into property development, in addition to the task business it does selling the large share of valuable textile quota to which it is entitled. "We bought it a year ago at 70 Hong Kong dollars," Mr. Smith says. "It's now over 70."

Hong Kong's Allure for International Investors

(Continued from Page 9)

ment (Asia) Ltd. "They are well aware that they have to sell themselves to overseas fund managers."

Exchange officials and others in the investment community are hoping such developments are harbingers of things to come. As Hong Kong prepares to rejoin China in 1997, they say, the stock market should become a major source of funds for Chinese enterprises as well as local and multinational companies doing business on the mainland.

Such ambition is a very long way from the casino-like environment for which Hong Kong has been known since its first exchanges were established early in this century. Almost from the first, trading has been dominated by local speculators who viewed share trading as a kind of informed gambling.

Busts have followed booms at regular intervals. In 1973-74, for instance, the Hang Seng went from a record 1,775 to 150, a casualty of massive overbuying and the first oil crisis. The market took a similar, though less severe, tumble in 1982, when the property market collapsed and the question of Britain's colonial lease was first raised in Beijing.

With history in view, perhaps, market observers are near-unanimous in cautioning that Hong Kong is far from a fully developed market. Insider trading, which is not yet a punishable offense, apparently remains widespread. Speculation — currently centered on 20 or so "entrepreneurial" stocks from Australia and New Zealand — is still a powerful force.

The market also remains heavily weighted in favor of banks and

'Should Hong Kong be trading at 15 times earnings when Tokyo is at 50 and Singapore at 30?'

property shares, which together account for some 70 percent of the market's \$5 billion dollars in total capitalization. Hongkong & Shanghai Banking Corp., the territory's premier financial institution, accounts for 10 percent of the market by itself.

Although they are the backbone of the economy, manufacturers make up only 5 percent of the market. Many are simply too small to be listed; among others, there is still a traditional reluctance to let even a minority interest slip into unknown hands.

For now, at least, regulatory weakness, potential volatility and the market's lack of balance still limit the foreign investor to a narrow range of issues — some 50 to

100 stocks, by most counts, out of a total market of 350.

"When you get beyond that, most overseas buyers say the risk-reward ratio is just not worth it," one British broker says. "This is essentially a two-tier market."

One fund manager would disagree: Gartmore's Oriental Ventures Trust, a collection of high-risk "special situations" that are decidedly not for the faint-hearted, has made Mr. Mount something of a local "wunderkind." Oriental Ventures appreciated by 330 percent in the year to mid-February.

Where are the graphs now headed? Die-hard optimists, such as Mr. Mount, say a Hang Seng of 4,400 or more by early-1988 is not inconceivable. They reason that the economy, which grew 8.7 percent last year, should expand a further 7 percent in 1987, and corporate profits will add 15 percent or more to the 30 percent gain registered in 1986.

Given that earnings projection, an index of 4,000-plus would mean a revaluation of the market to an overall P/E of 20 — still modest by global standards. Nonetheless, most analysts expect prices to rise more slowly, and perhaps retreat temporarily, once the Hang Seng advances beyond the 3,000 mark.

"If we hit 3,600 by midsummer, I'd say we'd topped out for the year," says Robert Thomas, director of investment management at Jardine Fleming Holdings Ltd. "If we reach that point by year-end, I'd be quite comfortable with it."

Already traders are showing some signs of skittishness. After reaching 2,939 last Tuesday, the Hang Seng dropped suddenly by 140 points, ending the week at 2,798.64.

The decline was widely attributed to the poor reception given to the restructuring of Hongkong Electric Holdings, one of two local utilities. But the question of whether the market has begun a broad retreat now hangs in the air like fog.

Real estate shares are now at the center of most portfolios. The reason is simple. While rents have risen some 50 percent since 1984, prices are up only 25 percent to 30 percent. With the local prime interest rate at 5 percent, yields on prime commercial and residential property are currently as high as 10 percent.

Reflecting a resurgence in consumer spending, service companies — restaurants, supermarket chains, clothing retailers — are also favored. So is Cathay Pacific Airways, Hong Kong's unofficial flag carrier, whose shares were offered to the public only last year.

The Hong, or old-line British trading houses, and utilities remain highly popular, and some analysts include a few industrial shares among their choices. The threat of protectionism, it is generally reasoned, is receding for Hong Kong; it is time to look beyond the reputation for instability that manufacturing shares have long had.

"Industrialists are trying to prove themselves," says Mr. Thomas of Jardine Fleming. "And institutional investors are beginning to take them more seriously."

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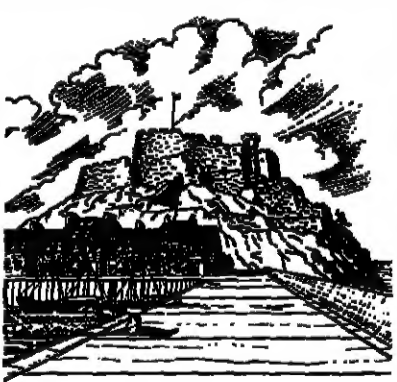
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London Prices In Real Estate Defy Gravity

By Jeff Ferry

B RITISH NEWSPAPERS RECENTLY criticized a London real estate agent for asking the equivalent of \$52,000 for a studio apartment. But the same day that the article appeared, the converted closet, desirably located opposite Harrod's department store, was sold to a woman who said she thought it was a good buy.

It was just one more example of how the London residential property market continues to defy gravity. The end of the boom, predicted at the time of the recession of the early 1980s, and again when oil prices dropped and Arab buyers deserted the market, obstinately refuses to arrive. Indeed, optimism about the market is higher than ever.

For the past five years, property in central London has risen by 25 percent a year on average, says George Pope, chairman of the London real estate agency, John D. Wood & Co., "and so far, the year of 1987 looks like it will see a similar performance."

Robert Ringrose, property analyst at the stockbrokerage Phillips & Drew, says the two most crucial factors for London property prices this year are interest rates and the outcome of the British elections that are widely expected in June. With a consensus that interest rates are headed downward, and with polls showing the Conservatives likely to win re-election, the outlook is decidedly upbeat.

For foreign investors considering London, the exchange rate is the main uncertainty. Gavin Davies, chief U.K. economist at Goldman, Sachs, says he expects the rate to fall "gradually, but not dramatically" over the next two years to a range of \$1.20 to \$1.30 to the pound from the current \$1.50-\$1.55 level.

The decision on where to buy property in London breaks down into two broad choices. The first alternative is the traditional upmarket areas, where prices are already high and further appreciation seems likely.

The second are those areas, mostly immediately surrounding the financial center in the City of London, where the initial outlay is lower and the risks greater, but the potential for large capital appreciation is regarded as quite good.

London's "Big Bang" of financial deregulation has revived almost overnight a number of formerly run-down areas around the "golden square mile" of the City of London. The expansion of overseas banks and brokerage houses has brought in thousands of well-paid foreigners. Increased competition for personnel has pushed salaries in financial services to unprecedented heights.

In addition, a shift to longer working hours has intensified the demand for housing close to the City.



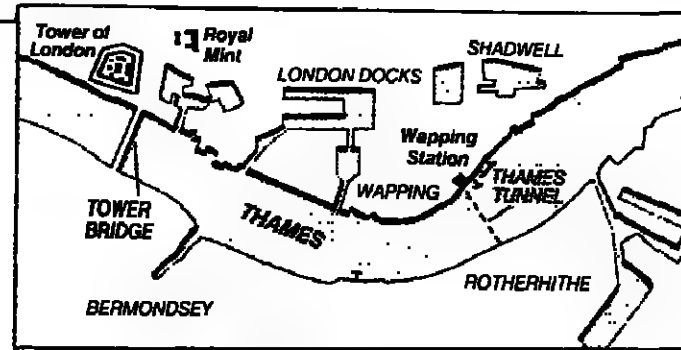
New Concordia Wharf development in the Docklands area, shown by inset. Tower Bridge is in the background.

All of these forces have pushed up prices for desirable houses and apartments. The most spectacular example is Docklands, as the broad expanse of land along the Thames to the east of the City is known.

Docklands' eight square miles (about 21 square kilometers) of property, much of it derelict, has been on the decline for most of this century. Now a series of changes — including the reclamation of decaying lots

in the Wapping section by a New York-style, moneyed "art" community, the building of a new rail link between Docklands and the City, and the planned construction of a massive office complex on Canary Wharf — have triggered a surge in prices.

"This has been an extraordinary, unprecedented change from an area which had nothing in it a few years ago, to an area which is now starting to achieve



some of the best West End prices," says Martin Carleton-Smith of the real estate agency of the same name. He reports selling two-bedroom flats with river views in Wapping and Bermondsey for as much as \$375,000 to \$450,000. There are numerous examples of prices doubling over the past year.

Some experts believe that the western part of Docklands has seen the best of the boom. They see greater future capital gains further east, in Limehouse, the Isle of Dogs, or Surrey Docks, or north into Hackney.

The boom has also affected areas west of the City, such as the Lloyd Baker estate area, which contains many fine Georgian houses, and Bloomsbury, which has many small apartments ideal as pied-a-terres. Frank Harris, a leading Bloomsbury estate agent, reports that a typical studio in Russell Court in historic Russell Square that sold for the equivalent of \$53,000 just over a year ago would sell today for \$70,000, a rise of more than 30 percent.

Covent Garden is another area where a good location has pushed up prices, and encouraged renovation, giving a further boost to prices.

Mr. Harris notes that areas such as Bloomsbury are much better served by amenities such as gardens, public transport, and good shopping facilities than areas to the east, such as Docklands or Hackney. The same is even truer of the traditionally upmarket areas further west, including Kensington, Chelsea, and Holland Park. Mr. Ringrose, of Phillips & Drew, argues that in view of the international profile of London's property buyers, these are the safest investments. □

Becoming a Landlord

Buying property in London and renting it out can be rewarding, provided the owner is aware of the peculiarities of the British rental market. Carelessness can be costly. Under the British Rent Acts, it may take several generations before an unwanted tenant can be evicted.

To get around this, most landlords will only let flats to companies. A "company" can be created by a good lawyer or a solicitor, and specialists in finding tenants, including references, drawing up leases and so on. For this service, a letting agent normally charges 10 percent of the rental income. For 15 percent, the agent will manage the property as well, which includes paying the bills and arranging maintenance.

Another problem is income tax. The British Inland Revenue requires letting agents pay a withholding tax of 29 percent on all rental income, even if the property owner is overseas. But a good letting agent and accountant can help minimize the amount of tax withheld.

Letting agents caution that estate agents, whose interest is in selling a property, are apt to overstate the existing rental value of a property. It is best to get an independent estimate, a service most letting agents will provide with no obligation.

Many experts expect a boom in rents over the next two years. The average return on a good central London property ranges from 5 to 7 percent of the capital value.

BOURSES

Profit-Driven Strategies

(Continued from Page 9)

And some of the industry leaders have price-earnings ratios well below average.

After loading up with several of these "lean and mean" companies, Mr. Sass likes Weyerhaeuser Co. the most. Recently restructured, Weyerhaeuser "is poised for a break," he says, with an expected 96 percent increase in earnings this year.

Noting that forest products will benefit from a better economy and a declining dollar, Mr. Einhorn of Goldman, Sachs suggests Union Camp Corp., which should boost profits by 66 percent to \$4.80 a share, and Westvaco Corp., for which he expects a 26 percent rise to \$3.15 a share.

According to Francis Cabour, manager of Fidelity's \$3 billion Puritan Fund, another buy in forest products is Boise Cascade Corp. Analysts recently revised their 1987 earnings estimates for Boise Cascade up to an average \$5.17 a share, a 56 percent increase over last year. "The paper products industry," Mr. Cabour says, "is the best in terms of profits growth."

For the most part, though, the market is "benefit of sleepers," complains Mr. Cabour, who has been taking profits on some issues. Among the few stocks he likes is the radically streamlined Canadian Pacific Ltd., the transportation company, which is expected to see its net income grow by 175 percent this year.

AIRLINES ARE ALSO POPULAR among analysts because of industry consolidation and low energy costs. On the top of that list is AMR Corp., the holding company of American Airlines. More or less in line with the consensus, Mr. Einhorn projects profits this year of \$5.50 a share, a 19 percent increase over 1986.

Technology stocks are well-positioned for a comeback, too, analysts say. Mr. Einhorn likes Digital

Great Expectations

Company	Current Price	Current P/E	Analyst's View
Canadian Pacific Ltd.	\$11.25	12.5	Analyst: "benefit of sleepers." Francis Cabour believes this is one of the few "breakout" plays.
Weyerhaeuser Co.	\$28.00	10.0	This time the analyst of Mr. Sass's "lean and mean" companies notes that prospects for forest products companies have improved.
Union Camp Corp.	\$4.80	10.0	Steven G. Einhorn expects DEC to be among the major beneficiaries of the comeback in technology stocks.
Boise Cascade Corp.	\$5.17	10.0	Shares in forest products, says Cabour, "are likely to show a double-digit increase" during the coming year's earnings season.
Digital Equipment Corp.	\$17.50	10.0	Industry consolidation and low energy costs are helping stimulate Mr. Einhorn's belief that prices will be most dynamic in American Airlines.

*Estimates of per-share earnings gains based on consensus view compiled by Institutional Brokers Estimate System.

Equipment Corp., with an estimated earnings gain this year of 68 percent to \$8.10 a share. Of 35 analysts following DEC, 28 recently increased their estimates for this year's profits.

"The cycle will pick up for the computer industry," agrees Mr. Sass. With projected earnings of \$8.75 a share next year, he notes, IBM Corp. is selling at 15 times projected 1987 earnings, "a discount to the market multiple."

David Alger, director of research at Fred Alger & Co., suggests Ashton-Tate Co., the software producer. Another rapidly growing company, Ashton-Tate's per-share earnings are expected to rise 42 percent this year to \$1.74. Assuming

a P-E of up to 25, the potential appreciation is 60 percent.

Mr. Alger, whose company ranks a list of 1,400 companies by earnings, says there are 110 companies that could have a net gain of at least 40 percent in the next year.

At the top of this list is Triangle Industries Inc., a major aluminum can producer. With current earnings of \$2.50 a share, Mr. Alger says, the stock is "already below the low of the industry's P-E range," which he estimates is 12 to 19 times earnings. Mr. Alger predicts earnings will increase by 37 percent this year, giving the stock an attractive future P-E of 10 and a potential 90 percent gain to investors. □



Paul Lachausse, First Vice President, International Commercial Division, with Robert Schenker, Senior Vice President, Commercial Division.

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OIL & MONEY IN THE EIGHTIES.

LONDON, OCTOBER 22-23, 1987.

The eighth International Herald Tribune/Oil Daily conference on "Oil and Money in the Eighties" will take place on October 22 and 23 in London. The conference which has become a major annual event in international energy circles, will feature an outstanding group of worldwide energy and financial experts and government leaders from Europe, the Middle East and the United States. The conference is designed to provide senior executives from the financial and energy sectors with an annual comprehensive update on the world oil market.

For full details please clip your business card to this announcement message and return it to: International Herald Tribune, Conference Office, 63, Long Acre, London WC2E 9JH. Or Telephone: (41) 836 4802. Telex: 262008.

BOURSES

'Converts' Find a Following

WITH U.S. SHARE PRICES continuing their record-breaking high-yield act, many investors have sought a safety net in convertible securities. These hybrid securities offer "a little insurance on the downside" while still allowing investors to participate in the stock market's advance, notes Robert W. Radach, senior vice president of Bull & Bear Group Inc., a fund management firm.

Convertibles give the holder a fixed rate of interest with the right to turn in the security for a specified number of common shares. The cost of conversion usually ranges from 10 to 30 percent above the prevailing price of the underlying stock. While a convertible does not move up as fast as the underlying stock, its yield provides a cushion against a fall in the issuer's shares.

Income-oriented investors are particularly drawn to convertibles now that the rise in share prices has reduced the average dividend yield on stocks to about 2.6 percent. This is the lowest yield on U.S. common stocks in nearly 14 years.

The demand for convertibles has been so strong, though, that the recent spate of new issues offers few bargains, say specialists. "It has been a little harder to find real value," Mr. Radach acknowledges. "Some of the new issues have come out with pretty fancy pricing."

For that reason, many portfolio strategists have turned their attention to seasoned issues. The problem is that seasoned issues tend to be neither the date or price at which they can be "called" — bought back by the issuer at a specified price. This makes them less attractive to investors because it effectively reduces the potential return.

In addition to call provisions, specialists in convertibles take a look at the trade-off between the yield and the conversion premium. A fundamental rule is to buy only convertibles whose underlying shares look attractive.

Mark Hunter, associate editor of a Value Line publication on convertibles, says there are still a

Market Scoreboard

Stocks on the New York, London and Tokyo exchanges that showed the largest percentage gains and losses in February.

Percent Gain		Price Feb. 27	Percent Loss		Price Feb. 27
New York Stock Exchange:					
Compiled by Media General Financial Services. Prices in dollars					
A.H. Robins	70	18.25	Barnard Chaus	25	14.50
Toll Brothers	50	19.00	ICN Pharmaceutical	21	18.75
News Corp.	48	32.88	Pannfil Knitting	19	16.38
Newmont Gold	45	25.00	BankAmerica	15	11.75
Jimo Delaval	43	21.75	Emerson Radio	15	10.25
Carling O'Keefe	41	13.25	CooperVision	15	16.25
Clair's Stores	40	13.63	Kentuck Utilities	12	38.00
Pier One Imports	39	18.88	Cilcorp	12	36.25
Lennar Corp.	38	30.50	Northern States Pwr.	11	33.63
Lomas & Nettleton	36	37.38	Baltimore Gas & El.	11	31.88
American Stock Exchange:					
Sorg Inc.	75	23.00	Electrosound Group	16	11.38
Taiwan Fund	73	33.13	Home Shopping	13	33.00
Computer Factory	58	38.98	Matthews & Wright	10	10.00
Materials Research	56	10.75	Mortgage Growth	10	21.25
Precision Aerotech	43	10.38	WestAmerica Banc.	9	51.00

American Stock Exchange:

Sorg Inc.	75	23.00	Electrosound Group	16	11.38
Talman Fund	73	33.13	Home Shopping	13	33.00
Computer Factory	58	33.88	Matthews & Wright	10	10.00
Materials Research	56	10.75	Mortgage Growth	10	21.25
Precision Aerotech	43	10.38	WestAmerica Banc.	9	51.00

Over the Counter:

Daxor	192	17.88	WNS Inc.	46	11.25
Imreg Inc. Class A	95	12.50	Viratek	43	40.25
Chemilawn	94	29.50	SPI Pharmaceuticals	34	20.00
Bookbuster Entertain.	98	23.88	Energy Factors	29	10.00
Biogen	61	13.88	Seven Oaks	25	11.25

London Stock Exchange:

Compiled by Morgan Stanley Capital International. Prices in pence.									
Wellcome	80	478	Tricentral	14	78				
Assoc. British Ports	29	488	Viratam	10	168				
Hilldown Holdings	28	288	Britoil	8	174				
Amersham Int'l	26	645	Northern Engineering	8	79				
Dixons Group	25	385	Morgan Grenfell	7	391				
Rothmans Int'l	25	233	Hill Samuel	7	481				
Glaxo Holdings	24	1,598	Allied Irish Bank	6	240				
Unilever Scientific	24	230	Harris & Crosfield	6	471				
Korcor	23	327	Assoc. Newspapers	6	495				
British Printing	23	335	Willis Faber	5	439				

Tokyo Stock Exchange:

Compiled by Morgan Stanley Capital International. Prices in yen.									
Kobe Steel	55	298	Nintendo	23	9,570				
Ajinomoto	51	3,000	Nippon Shinyan	18	1,020				
Sumitomo Chemical	43	739	Mitsubishi	18	1,870				
All Nippon Airways	38	1,840	Orient Finance	17	1,010				
Mitsui Shipbuilding	37	230	Secom	15	7,300				
Japan Line	36	128	Daiwa Bank	14	1,630				
Olympus Optical	35	1,380	Furukawa Electric	14	469				
Nagoya Railroad	28	808	Bank Yokohama	14	1,410				
Japan Air Lines	27	16,200	Hitachi Credit	14	1,720				
Shimizu Denko	26	540	Orient Leasing	14	3,480				

few seasoned issues that appear to offer good value. One is the 6 percent convertible bond of Pep Boys, an auto-parts retailer with a high investment-grade rating.

The price of the Pep Boys convertible has risen to about \$1,170, giving it a current yield of about 5.25 percent. At that level, the pre-

mium for converting it into shares is about 19 to 20 percent. Mr. Hunter says. The issue is callable after November 1988.

Another attractive issue, he says, is the 8.25 percent convertible bond of DBA Systems, a computer systems firm that specializes in aerospace applications. The

bond has a current yield of 7 percent and is trading at a conversion premium of 15 percent. The bond is an attractive way to hold the shares, he says, since the company's common pays no dividend. The issue is callable after November of this year.

William McBride

Junk Bonds Make a Comeback

By Anise C. Wallace

IN THE WEEKS AFTER the Ivan F. Boesky scandal broke, junk-bond prices dropped sharply as buyers all but disappeared. They were worried that Drexel Burnham Lambert Inc., the dominant force in the market for these low-rated, high-yield bonds, would be dragged down by government insider-trading investigations.

But while those fears have not evaporated, the junk-bond market has roared back. Bond prices have surged, and the yield spread between junk bonds — rated Ba or lower by Moody's — and long-term Treasury issues has narrowed to about 4.5 percentage points, from about 5.25 points in December. An example: an 11.75 percent, 10-year bond issued by Safeway Stores Inc. in December at par (100), is now selling for 105 1/2, yielding about 11 percent.

Indeed, some investors believe that the Boesky shock waves have been healthy for the junk-bond market. Its recovery, they say, indicates that the market is more resilient — and liquid — than had been perceived. Others argue that, the recent rally aside, junk bonds are still "junk" and are not for widows, orphans or the faint of heart.

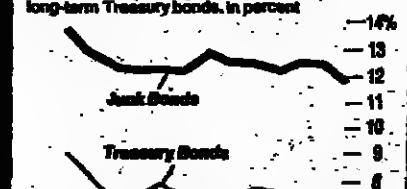
Because of the rally, fewer bargains are available — a sharp contrast from December, when investors were predicting the fall of the junk empire. Then bonds practically went begging, creating a "buying opportunity" for investors with strong stomachs.

Why the recovery? Experts cite two factors: First, investors are increasingly confident that the junk market will survive the insider-trading scandal, even if some of the market's participants do not. Secondly, at the beginning of the year there was a shortage in the supply of such bonds.

The money pouring into junk bonds comes from both institutions and individual investors. Last month, for example, more than 100 institutional investors showed up in New York for a meeting held to promote Holiday Corp. junk bonds. Since the first of this year, the \$100 million in net cash flow to the T.

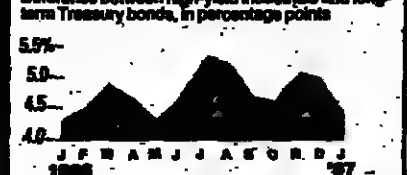
Junk Bonds Rally

Yield to maturity for high-yield industrial and long-term Treasury bonds, in percent.



And the Spread Narrows

Difference between high-yield industrial and long-term Treasury bonds, in percentage points.



Source: Federal Reserve Board, NYF Graphs

Rowe Price high-yield bond fund has made it this year's most popular choice among the Baltimore firm's fixed-income mutual funds. The net assets of the Massachusetts Financial High-Yield Trust have jumped 9.47 percent in the same period.

All this renewed interest has made some seasoned investors jittery. Some experts point out that many smaller insurance companies and savings and loans are jumping in to buy junk without understanding the risk. "I'm shocked by the numbers of people entering this market," one professional money manager says.

But even more worrisome to some are the continuing questions surrounding Drexel. If the firm, and/or its junk-bond pioneer, Michael R. Milken, become paralyzed by the scandal, Drexel may be unable to create an orderly market. That could panic investors, who might pull funds out of the market. Prices could plunge. Other firms then might reduce their exposure to junk bonds, further drying up liquidity. While some Wall Street firms

might step in to fill the void, they would mop up only the best of the junk bonds and leave the ones "no one wants to touch," suggests Michael Metz, investment strategist at Oppenheimer & Co. in New York.

Perhaps the biggest worry for the junk-bond market is a possible recession, which would render many of the highly leveraged companies that have issued the bonds unable to meet interest payments. In fact, investors who specialize in junk bonds admit that this risk is greater than the risks facing Drexel. "The risk you take is credit risk," says Talton R. Embury, president of New York's Magellan Asset Management.

Robert Wallace, president of Gateway Advisors in San Jose, agrees. "The default rate for junk bonds in 10 years will likely be different than it does today," he says, suggesting that the rate will increase because of economic problems in specific industries such as energy, steel and containers.

AS A RESULT, Mr. Wallace, whose offshore mutual fund and private accounts have advanced in value almost 20 percent since the beginning of the year, is concentrating on the junk-bond issues used to finance mergers and corporate restructurings and spin-offs. But he says he has bought these "deal" issues only when he was convinced that the companies could meet the high-coupon interest payments through possible asset sales or diversification.

He cites as examples the securities issued by Holiday, Owens Corning and Beatrice. "It requires reading all the published material, available about the mergers," he says.

Many professionals are avoiding the junk issues with extremely high coupons — 14 percent or greater — because of the likelihood that they will be called in the next few years, as companies try to replace this high-cost debt with lower-yielding issues. If that happens, investors then will have to reinvest their proceeds in issues with much less return.

And, after the bankruptcy of LTV Corp., many also are avoiding junk bonds of companies in troubled "smokestack" industries such as steel.

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In Vienna, the Party Hits a Lull

By Ferdinand Protzman

VIENNA

AFTER TWO YEARS of

heady advances, the

Vienna Stock Exchange

seems destined for the

doldrums. Equities analysts

are forecasting lower prices and vol-

umes, as the bovine struggles

to adjust to slower domestic economic

growth, diminished foreign partici-

pation and the strong Austrian schilling.

In 1987, investors will earn

considerably less in the Vienna

stock market than in 1985 and

1986," says Gerhard Grund, who

heads the securities trading de-

partment of the Geosensitiv-

sche Zentralbank AG. "We ex-

pect a downward correction of

about 10 percent from current

price levels and rather small vol-

ume before shares stabilize."

The Creditanstalt Index, the

most-watched measure of the Vi-

enna exchange's performance, has

already dropped to a level of

204.36 on Friday, compared with

a reading of 231.99 at the begin-

ning of the year.

The declines so far this year

contrast sharply with the market's

performance in the recent past.

The once moribund exchange sur-

prised the world in 1985 as share

prices rose a stunning 130 percent

to top all global equity markets. In

1986 prices fell as many investors

took profits, but volume rose 50

percent and 10 new issues were

introduced. Those achievements

were the all more remarkable con-

sidering the old-fashioned trading

procedures that had prevailed

since the fall of the Hapsburg

monarchy in 1919.

"It is unfair to measure the mar-

ket against 1985," says Alfred Re-

gele, director of securities trading

for Creditanstalt-Bankverein,

Austria's largest universal bank.

"It was an extraordinary year,

probably a bit too strong a perfor-

mance."

Analysts agree there will not be

an encore in 1987.

The most obvious change on the

Vienna exchange is the relative ab-

sence of foreign investors, whose

heavy purchases were the driving

force behind the 1985 boom. Pro-

fit-taking by investors from abroad

was the main factor in 1986. In

1987, they are staying away, anal-

ysts say.

"Foreign investors really aren't

an important factor right now,"

says Mr. Grund. "Some West Ger-

man investors are still here, but

the British and Americans are

largely gone. They played the most

important role in 1985 and 1986."

According to analysts, the

strength of the dollar against other

major currencies in 1985 was what

first brought bargain-hunting for-

eign investors to Vienna. Since

then, however, the Austrian schil-

ling has strengthened consid-

erably, with the exchange rate cur-

rently holding at about 13

schillings to the dollar, compared

with around 24 schillings in 1985.

"We are a hard-currency coun-

try," says one analyst. "The stock

market isn't going to rebound un-

til the dollar begins to strengthen

again. The market does offer an

opportunity for those following an

anti-cyclical strategy, but the profits

won't be quick. It could take a

year."

Austria's economy is also

weighing on the market. The

newly formed coalition government

is grappling with severe structural

problems in Austria's largely

state-owned industrial sector,

problems the government es-

timates will require an infusion of

about 41 billion schillings by 1991.

to cover losses and finance re-

structuring measures. The govern-

ment is also shaping plans for tax

reform and spending cuts, but no

significant action is expected be-

fore 1989.

While Austria has yet to release

gross national product statistics

for 1986, most economists believe

that GNP growth was around 2

percent; down from 3 percent the

previous year. For 1987, initial

estimates are for GNP growth be-

tween 1.5 and 2.0 percent.

On the plus side, interest rates

are relatively low, with the na-

tion's discount rate now at 3 per-

cent. Inflation is also low. After a

1.7 percent inflation rate in 1986,

economists are predicting a slight

increase to 2.5 percent in 1987.

Despite the lackluster economic

outlook, analysts say the market is

in much better shape now than it

was before the boom. The ex-

change's total capitalization rose

to 84 billion schillings in 1986

from 74 billion schillings in 1985,

while the number of Austrian

stocks traded rose to 63 from 51

and the number of foreign stocks

rose to 29 from 26.

A HANDFUL OF domestic

issues, such as Creditanstalt,

account for the bulk of daily

trading, which has had

average volume of about 38

million schillings in recent weeks.

Creditanstalt is cautiously

recommended as a buy, although

analysts note that the bank had

EUROBONDS

Given Choice in Issue Surge, Investors Rush for Sterling

By CARL GEWIRTZ

PARIS — After weeks of effort to regain its past momentum, the Eurobond market sprang to life last week with a dazzling array of currencies. The standard sector was buoyed by the currency, buoyed by firmer oil prices and against the dollar and Deutsche mark. The prospects of further appreciation and potential capital gains as interest rates ease had foreigners scurrying for bonds still bearing double-digit coupons. The rush into sterling pushed rates solidly into single digits and only American Express Overseas Credit set a coupon of 10 percent — less real than it looked since the £40 million of seven-year notes were priced at 101 1/4, cutting the yield to 9.67 percent. The rapid decline in interest rates was best demonstrated by Deutsche Bank, which early this year tapped the market for 5-year money. Last week it returned for 10-year funds paying 4 1/2 point less. Demand for equity was no less strong, enabling Tesco, the British retail chain, to increase by £15 million its £115 million of 15-year bonds convertible into stock. The issue carried a record low coupon of 4 percent and the bonds ended the week up 5 1/4 percent. More generally, bankers reported a significant increase in retail demand for bonds — especially high-coupon sectors. The statement after last month's meeting here of finance ministers, which said "they agreed to cooperate closely to foster stability of exchange rates around current levels," is now being taken more seriously than at first and money is now shifting out of the lower-yielding safe havens of Deutsche mark or yen bonds. The late week news of a surprisingly large increase in U.S. nonfarm employment was a setback for the dollar bond market. Prices dropped as investors decided the U.S. economy was picking up steam faster than anticipated, ruling out any imminent further decrease in interest rates. But this was good news for the dollar, which rose on the foreign exchange market.

In sterling, Deutsche Bank got a long maturity and a cheaper rate

ALTHOUGH SOME currency dealers had predicted that the vague communiqué after February's meeting of finance officials would result in a quick test of official resolve to support the dollar, it now appears that the foreign exchange market is about to test their tolerance of a higher dollar. In any event, for foreign investors buying dollar paper, the gains in the foreign exchange market counterbalanced the fall in bond prices.

The Australian dollar market, with its very high coupons, also remained a magnet for investors willing to gamble on the currency. The Australian dollar is not part of the February currency pact, and as the high coupons indicate, is a candidate for devaluation.

However, for the first time, investors last week were offered an instrument that provided good protection on the currency in return for no protection on interest rates.

The formula was introduced by Commonwealth Bank of Australia, rated triple-A. It offered five-year paper at a price of 101 bearing a coupon of 16 percent. The catch is that the coupon is reset every year. Holders have the option of accepting the new coupon or requesting redemption.

This means investors can take only a one-year exposure on the currency, which is certainly safer than being locked into a five-year commitment.

CBA is using this formula because it obviously hopes that interest rates will decline. At present, the rate structure in Australia is inverted with short-term rates higher than long-term. Yet at some point this unnatural state should reverse. Thus, rather than locking in five-year money now at around 14 1/2 percent, CBA would rather pay 16 percent for one year hoping to achieve a significant cost saving in subsequent years. The formula was well-received and the amount of the issue increased from the 100 million Australian dollars initially announced to 125 million dollars. The price of the issue had held remarkably firm — a discount of only 4 1/2 point — and slipped sharply only after the amount was increased and a similar issue announced.

The State Bank of South Australia used exactly the same formula, but set an initial coupon of 16 1/2 percent. Unlike CBA, this issuer does not have a government guarantee and is a less known name — explaining the higher coupon. But the competition hurt CBA.

The five other Australian dollar issues were for the usual assortment of high-quality names offering medium-term paper that is never likely to trade actively. Among the issuers were

See EURO BONDS, Page 15

Last Week's Markets

All figures are as of close of trading Friday

Stock Indexes	March 4	Feb. 27	Change
United States	2,883.33	2,822.99	+ 60.34
DJ Industrial	2,883.33	2,822.99	+ 60.34
DJ Utility	219.08	218.97	+ 0.11
DJ Trans.	298.21	295.48	+ 2.73
S & P 500	298.21	295.48	+ 2.73
S & P 400	298.21	295.48	+ 2.73
S & P 600	298.21	295.48	+ 2.73
Nikkei 225	13,105.86	12,471.64	+ 634.22
West Germany	1,254.60	1,211.70	+ 42.90
France	1,254.60	1,211.70	+ 42.90
London	2,768.40	2,677.57	+ 90.83

Currency Rates

Cross Rates	March 6
Australian \$	1.29 1/2
Belgian franc	40.33
British pound	1.63 1/2
Canadian dollar	0.75 1/2
Deutsche mark	1.36 1/2
French franc	6.55 1/2
Italian lira	1,360 1/2
Japanese yen	163 1/2
Swiss franc	1.48 1/2
U.S. dollar	1.00

U.S. Halts TWA Bid For USAir

First Plan Fails To Meet Rules

By Agis Salpukas

NEW YORK — The U.S. government has dealt a significant setback to Carl C. Icahn's attempt as chairman of Trans World Airlines to gain control of USAir Group Inc. The Department of Transportation, supported by the Justice Department, rejected Friday TWA's application to acquire the Washington-based carrier. Last Wednesday, Mr. Icahn said he had offered about \$1.65 billion to acquire all of USAir's stock. The Department of Transportation said that the application "clearly fails to comply" with federal rules on airline mergers and did not provide the analysis and information necessary for the agency to determine whether the takeover would be anti-competitive and in the public interest. USAir said Friday it had asked the Department of Transportation to dismiss the TWA bid on these grounds, and to order TWA to sell its USAir shares. The agency also said that the Justice Department had found that the application "appears incomplete on its face."

USAir had said if the application was dismissed, Transportation Department rules would limit TWA to buying only 1.5 percent of its 31.7 million shares outstanding. TWA said Friday that it had increased its stake to about 15 percent, or more than 4 million shares, after earlier announcing it was the company's largest shareholder with less than 10 percent. It was not immediately clear whether TWA will have to begin selling its holdings. Mark Buckner, TWA's general counsel, said that the carrier would be filing "a perfect and completed application" Monday morning with the Transportation Department. But sources close to the Transportation Department said the strong stand of the Justice Department would likely lead to a rejection. See TWA, Page 17

Bell Finds Ideas Alone Don't Pay

Labs Learning Importance of The Marketplace

By Michael Schrage

NEW YORK — If there's a single place that symbolizes U.S. scientific brilliance and high-tech ingenuity, it is Bell Laboratories.

Averaging a patent a day since its founding in 1925, Bell Labs has brought forth such fundamental technologies as the transistor, the laser and the communications satellite. Seven Bell Labs scientists have won Nobel prizes.

"You could offer me the smartest guy from the sharpest research labs in the world, put them together, square them, and I'd still prefer the Bell Labs guy in terms of sheer brilliance," said Peter Keen, who did consulting work from 1976 to 1979 for Bell Labs, the research and development arm of American Telephone & Telegraph Co.

But if there is a single place that symbolizes the difficulties in transforming brilliance into profitable products, that, too, is Bell Labs.

"There are a lot of myths surrounding the divestiture," Jack Grubman, a Paine Webber analyst, said of the divestiture in 1984 of local operating companies that made up the Bell System.

"One myth was that Bell Labs had all this technology on the shelf just waiting to go out the door and blow away IBM. That is why AT&T from Day 1 was viewed and valued as a technology company. The reality was that the shelves were bare," said Mr. Grubman, who spent eight years at AT&T.

More than three years ago, Charles Brown, who was then the chairman of AT&T, asserted that one crucial benefit of the impending divestiture would be the "unleashing" of Bell Labs' technologies upon the global marketplace. "I thought it was an unrealistic phrase," said Edward Goldstein, 36, a former AT&T corporate vice president for strategy and



Researchers at Bell Labs working on computer chips.

development who left in 1985 to become a principal in Management Analysis Center, a consulting group in Cambridge, Massachusetts.

"The phrase was based on a parochial view," he said. "In fact, top management had never had to test the quality, the marketability, the competitiveness of the lab's technology. 'The world wasn't waiting for the lab's technology to be unleashed.'"

Gordon Bell, a former Digital Equipment Corp. executive who now runs the National Science Foundation's computer science directorate, said of the "unleashed" labs: "The dog doesn't have any teeth."

But he added, "I really have empathy for the labs. They've created so many innovations that the world has benefited from. I still view them as a national resource for basic research."

AT&T's problem is how best to take the labs' research, ideas and innovations and package them as products and services that can generate growth for a \$35 billion-a-year corporation.

In the past year, AT&T has announced terms of thousands of layoffs, a multibillion-dollar write-down on equipment and a

Planned Airbus Said to Have 4 Firm Customers

By Warren Gerdler

LONDON — Airbus Industrie representatives have said that the European aircraft consortium has four firm launch customers for its planned A-340 long-haul jet, sources at British Aerospace PLC, an Airbus partner, said Sunday. Airbus has said it needs five launch customers before March 31 to justify the manufacture of two new jets, the A-340 and the short-to-medium range A-330.

Three Airbus partners, Aerospatiale of France, Messerschmitt-Bölkow-Blohm GmbH of West Germany and British Aerospace, have asked their sponsor governments for about \$4 billion in launch aid for the A-330 and A-340 planes.

With four major launch customers apparently in hand, Airbus's supervisory board, at a meeting on Friday in Toulouse, France, is expected to urge sponsor governments to commit themselves to aid for the new planes.

To date, Lufthansa AG of West Germany is the only carrier to have officially announced firm orders, for 15 A-340s with options on an additional 13.

But Airbus officials said last week that Air France, which had been considering an order for six or seven A-340s, could now be counted as a launch customer, as could a third European national airline and one non-European flag carrier.

But the officials, who made their comments at a briefing of parliamentarians arranged by British Aerospace, were unwilling to name the two other carriers at the request of those airlines, according to British Aerospace sources.

A source close to Sabena, the Belgian national carrier, said the airline was giving "very serious consideration" to the A-340 as a replacement for its five McDonnell Douglas DC-10 long-haul jets, and may be close to reserving delivery positions on five or six A-340s.

The source said that that would be a precautionary, but not binding, move to obtain advantageous terms should the airline opt to place firm orders.

Sabena, however, has not formally decided on ordering the A-340 or the competing McDonnell Douglas MD-11 aircraft, the source said. McDonnell Douglas decided in January to go ahead with the long-range plane.

The United States contends that government subsidies to Airbus violate trade laws and allow the consortium to compete unfairly with Boeing Corp. and McDonnell Douglas. However, the govern-

ments say the aid consists of loans that must be repaid. The French and West German governments, as early as 1985, signaled their readiness to provide aid, if the jets are shown to be commercially viable, but the British government has not. Britain's trade secretary, Paul Channon, is to meet with executives of British Aerospace on Monday to discuss BAE's request for £750 million (\$1.19 billion) in launch aid, spread over several years.

"Thus far," according to a British Aerospace source, "the government has not made us an offer."

The government decision will depend heavily on how broad a base of launch customers the A-340 and A-330 have.

"British Aerospace is not going to go ahead with this project unless we've got adequate government assistance," a BAE official said.

OPEC Chairman Expects Quota To Remain Same

LAGOS — Rikwanu Lukman, OPEC's president, said Sunday that OPEC had carefully worked out its ceiling of 15.8 million barrels per day and might not consider a reduction soon despite demand for oil.

Mr. Lukman, who is also Nigeria's oil minister, was speaking on his arrival from an official visit to Jamaica. He estimated that demand for oil from the Organization of Petroleum Exporting Countries was 17.1 million barrels per day.

OPEC's 15.8 million barrel ceiling, which covers the first half of 1987, drove prices up to the \$18 a barrel target set by OPEC. Prices then retreated because of what OPEC blamed on heavy stockpile depletions by non-OPEC producers.

On Friday, prices for the U.S. benchmark crude, West Texas Intermediate, moved above \$18 a barrel on cash and futures markets for the first time in recent weeks. Traders said the price could rise further as reports proliferated that OPEC had cut its output below its 15.8 million barrel quota.

Mr. Lukman said OPEC ministers might not find it necessary to meet to discuss oil pricing issues before the regular ministerial meeting in Vienna in June. A meeting of the ministerial committee on price differentials originally set for last week has been postponed indefinitely.

Quakes Jolt Ecuador Into an Economic Crisis

By Agis Salpukas

QUITO, Ecuador — Ecuador faces a deepening of its economic problems and new handicaps to repaying its foreign debt after two earthquakes last week paralyzed production and exports of oil.

The earthquakes, which struck late Thursday night, killing at least 18 persons, devastated the trans-Andean pipeline that links Ecuador's Amazon basin oilfields with the port of Balao on the Pacific coast. Twenty-five miles (40 kilometers) of the pipeline "virtually disappeared," an Energy Ministry spokesman said, and may not be repaired for several months.

For Ecuador, the quakes are a disaster whose magnitude could far exceed the tremors' 6 and 6.8 ratings on the Richter scale. Oil accounts for about two-thirds of Ecuador's exports and 60 percent of government revenue. In recent months the country had been pumping more than 200,000 barrels a day, worth about \$3.6 million a day at current prices around \$18 a barrel.

"The situation is incredible," said the health minister, Jorge Brachio. "The earthquake affects the economic situation. We won't be able to sell a single drop of petroleum for up to four or five months."

The country, one of the poorer members of the Organization of Petroleum Exporting Countries, already had been reeling from the recent slump in world oil prices, which cut export income by about a quarter to \$2.1 billion last year.

As a result, the government blemished its once clean record in servicing its \$8.16 billion debt. On Jan. 31, it suspended interest pay-

ments to its 400 or so bank creditors, to whom it owes about \$5.4 billion, and said it would limit payments to other creditors to 30 percent of export income, compared with 45 percent in 1986.

The country has fallen at least \$83 million behind in interest payments. Government officials and others said the earthquakes would make an already difficult situation intolerable.

Ecuador is in such dire straits, one government official said, that "I just don't know where we'll get the money to repair the pipeline."

The government moved to gain some control over the situation. Oil

exports were indefinitely halted, and the sale of fuel to foreign airlines and ships was banned.

It also imposed austerity measures on the nation's 9.6 million residents, banning the sale of gasoline on weekends and holidays and limiting sales on weekdays. The quakes also damaged natural gas and gasoline pipelines from the coast to Quito and other mountain

cities, forcing rationing of those products.

For Ecuadorians, accustomed to driving with cheap and plentiful gasoline — about 27 U.S. cents a gallon (7 cents a liter) — the austerity measures, and the sharply higher prices certain to follow, came as a shock.

Ecuador had been accustomed to relative prosperity, compared with much of Latin America. From the 1970s until 1985, when oil prices topped \$35 a barrel, Ecuador's economy was among the two fastest-growing in the region.

The crisis also came at an especially bad time for the government, before presidential and general elections next January to be disputed by 17 political parties.

According to some press reports, one of President León Febres Cordero's opponents is likely to be Lieutenant General Frank Vargas Páez, a former air force commander who staged two unsuccessful rebellions against the president, a conservative and a strong U.S. ally.

Mr. Febres Cordero was humiliated in January when parliament kidnapped him for 12 hours, and demanded the release from prison of General Vargas. Mr. Febres Cordero complied.

Ecuador, which restored democracy in 1979 after seven years of army rule, has a symbolic political importance in Latin America because it led the region's return to democracy.

Foreign debt looms as a major political issue in the elections. Ecuador's union federation, the United Labor Front, wants an outright moratorium on debt payments and says it plans a general strike.

General Vargas, in hiding, has said he favors the ceiling set by President Alan García Pérez of Peru of 10 percent of export earnings for debt payments.

Ecuador's problems are so grave, one official said, 'I just don't know where we'll get the money to repair the pipeline.'

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U.S. Protests Canada's Duty on Corn

Compiled by Our Staff From Dispatches

WASHINGTON — Canada's unprecedented move to impose a permanent duty on imports of U.S. corn has provoked protests from top U.S. officials.

The decision announced Friday by Canada's import tribunal in Ottawa is believed to be the first time a countervailing duty has been imposed on a U.S. product because of alleged unfair trade practices.

Clayton K. Yeutter, the U.S. trade representative, called the decision "totally unjustified" and said it could lead to a rash of similar protectionist moves in other countries.

The French Corn Growers Association has told the European Community's Executive Commission in Brussels that it intends to

file a complaint against imports of U.S. corn gluten feed, a byproduct of corn.

"We are going to complain bitterly to the Canadians about this action," said Agriculture Secretary Richard E. Lyng.

The Canadian government tribunal ruled that imports of U.S. corn grown with the aid of large government subsidies have hurt Canadian corn farmers. The tribunal said to offset the U.S. subsidies, Canada would apply a permanent import duty of 84.9 cents per bushel on the U.S. corn.

The tribunal's majority decision on Friday reaffirmed a tariff imposed by revenue officials, and applied to grain corn in all forms, excluding sweet corn, sweet corn and popping corn.

"U.S. corn exports to Canada are so small that it is inconceivable that they injure Canadian corn farmers by any reasonable measure," Mr. Yeutter said. According to U.S. figures, its corn shipments account for about five percent of the Canadian market.

The Ontario Corn Producers' Association initiated the complaint, but on Friday, its president, Cliff Leach, asserted the problem had its start in the grain dispute between the United States and the EC, in which a compromise was announced in late January.

"We are all caught up in a situation caused by European policies which have been devised for parochial political reasons," he said.

(Reuters, UPI)

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New International Bond Issues

Compiled by Laurence Desvillettes

Issuer	Amount (millions)	Mat.	Coups. %	Price	Price and week	Terms
FLOATING RATE NOTES						
Marine Midland Bank	\$100	1999	1/4	100	99.25	Over 3-month Libor. Callable at par in 1992. Redeemable in stock or in cash. Fees 0.75%. Denominations \$10,000.
TMC Mortgage Securities I	\$200	2014	1/4	100	—	Over 3-month Libor. Average life 5 to 8 years. Fees 0.50%.
FIXED-COUPON						
First Finance & Trade	\$100	1991	7 1/4	101 1/4	98.73	Noncallable. Fees 1985. Also 200,000 two-year warrants, priced at \$45 each, giving the right to buy \$500 of a fixed exchange rate of 1.75 marks per dollar.
General Motors Acceptance Corp.	\$300	1990	7	101 1/4	99.68	Noncallable. Fees 1985.
Hoechst Invest	\$100	1992	7 1/4	100 1/4	—	Noncallable. Fees 1985.
Hoechst Invest	\$300	1994	7 1/4	100 1/4	—	Noncallable. Fees 1985.
Hoechst Invest	\$100	1997	8 1/4	101	—	Noncallable. Fees 1985.
IBM Credit	\$300	1990	6 1/4	101 1/4	99.20	Noncallable. Fees 1985.
Inf' Finance	\$50	1997	7 1/4	99 1/4	—	Noncallable private placement in denominations of \$25,000.
Komatsu-Goshu	\$75	1994	8 1/4	101 1/4	—	Noncallable. Fees 1985.
MONTY Funding	\$125	1997	8 1/4	101 1/4	98.90	Noncallable. Fees 1985.
Nederlandsche Gasunie	\$100	1992	7 1/4	101 1/4	99.25	Noncallable. Fees 1985.
Scab-Scania	\$150	1992	7 1/4	101 1/4	100.13	Noncallable. Fees 1985.
Svenska Bank Capital Markets	\$180	1992	7 1/4	101 1/4	99.73	Noncallable. Fees 1985.
Statoil	DM 200	1993	5 1/4	100 1/4	99.00	Noncallable. Fees 1985.
Statoil	DM 200	1997	6 1/4	100	98.25	Noncallable. Fees 1985.
World Bank	DM 250	1992	5 1/4	100	—	Noncallable private placement.
American Brands	\$50	1994	9 1/4	99 1/4	97.75	Noncallable. Fees 1985.
Overseas Express Overseas Credit	\$40	1994	10	101 1/4	100.18	Noncallable. Fees 1985.
Commerzbank Overseas Finance	\$50	1992	9 1/4	101 1/4	99.45	Noncallable. Fees 1985.
Dai-ichi Kangyo Bank Nederland	\$50	1992	9 1/4	101 1/4	—	Noncallable. Fees 1985.
Deutsche Bank Finance (Garaol)	\$75	1997	9 1/4	101 1/4	99.85	Callable at 100% in 1994. Fees 2%.
Finell U.K. Int'l Finance	\$50	1992	10	101 1/4	99.88	Noncallable. Fees 1985.
European Community	FF 600	1997	8 1/4	99 1/4	97.50	Noncallable. Fees 2%.
World Bank	DF 100	1992	5 1/4	100	—	Noncallable private placement.
Eurofin	ECU 50	1993	7 1/4	101 1/4	99.50	Noncallable. Fees 1985.
KB-Rima	ECU 75	1991	7 1/4	101 1/4	98.25	Noncallable. Fees 1985.
Merrill Lynch	ECU 100	1990	7 1/4	101	99.63	Noncallable. Fees 1985.
Michelin Finance	ECU 60	1990	4 1/4	100 1/4	98.75	Noncallable. Each 1,000-ECU note with 2 two-year warrants giving right to buy \$500 of a fixed exchange rate of 1.833 marks per dollar. Fees 1985.
World Bank	FF 900	1994	10	101 1/4	99.63	Semiannually. Fees 1985.
Canada Zero	CS 150	2001	zero	30	29.00	Yield 9.31%. Noncallable. Proceeds \$244 million. Fees 1985.
Quebec City	CS 40	1997	9	100 1/4	98.50	Noncallable. Fees 2%.
Scania Mortgage	CS 100	1992	8 1/4	100 1/4	98.75	Noncallable. Fees 1985.
Victoria Public Authority Finance	CS 100	1992	8 1/4	100 1/4	98.63	Noncallable. Fees 1985.
Commonwealth Bank of Australia	Aus \$125	1992	16	101	99.88	Coupon will be 16% the first year and will be reset every year thereafter of the one-year Australian Treasury rate. Redeemable every year at par. Fees 1985. Denominations Aus\$10,000.
General Electric Credit	Aus \$75	1990	15	101 1/4	100.00	Noncallable. Fees 1985.
Hanjin-Gasche Longbank	Aus \$50	1991	15	101 1/4	99.50	Noncallable. Fees 1985.
Monte dei Paschi di Siena (Singapore)	Aus \$80	1990	15 1/4	101 1/4	99.88	Noncallable. Fees 1985.
Montedison Finance Overseas	Aus \$50	1990	15 1/4	101 1/4	99.38	Noncallable. Fees 1985.
WEDProlis	Aus \$75	1991	14 1/4	101 1/4	98.75	Noncallable. Fees 2%.
State Bank of South Australia	Aus \$50	1992	16 1/4	101	99.75	Coupon will be 16 1/4% the first year and will be reset every year thereafter of the one-year Australian Treasury rate. Redeemable every year at par. Fees 1985.
Caisse d'Aide à l'Équipement des Collectivités Locales	¥12,000	1994	5 1/4	102	100.13	Noncallable. Fees 1985.
Caisse Centrale Desjardins du Québec	¥10,000	1992	1	101 1/4	99.63	Coupon will be 1% in first 2 years and 7 1/4% thereafter. Noncallable. Fees 1985. Denominations 100 million yen.
Caisse Centrale Desjardins du Québec	¥10,000	1994	5	102 1/4	—	Noncallable. Fees 1985.
DNC Int'l Finance	¥19,000	1992	zero	80.90	79.28	Yield 4.735%. Noncallable. Proceeds 15,130 million yen. Fees 1.55%.
Great American First Savings Bank	¥15,000	1992	5	101 1/4	99.88	Noncallable. Fees 1985.
Nissan Motor Company	¥35,000	1992	5 1/4	103 1/4	101.50	Noncallable. Fees 1985.
Nordic Investment Bank	¥15,000	1992	4 1/4	103	101.00	Noncallable. Fees 1985.
World Bank	¥5,000	1994	4 1/4	100	—	Noncallable private placement. Fees 1985.
EQUITY-LINKED						
Ashikaga Bank	\$50	2002	open	100	103.50	Semiannual coupon indicated at 2 1/4%. Callable at 103 in 1992. Convertible at an expected 5% premium. Fees 295%.
BBN Bank	\$70	1992	3	100	96.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 1,640 yen per share and at 154.40 yen per dollar. Fees 295%.
Gumma Bank	\$50	2002	open	100	101.50	Semiannual coupon indicated at 2 1/4%. Callable at 103 in 1992. Convertible at an expected 5% premium. Fees 295%.
Hokkaido Bank	\$30	2002	open	100	103.00	Coupon indicated at 2 1/4%. Callable at 103 in 1992. Convertible at an expected 5% premium. Fees 295%.
Matsushita Electric Trading	\$100	1992	open	100	103.00	Coupon indicated at 2 1/4%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2 1/4% premium. Fees 295%.
Mitsubishi Estate	\$300	1994	3	100	110.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at 2,817 yen per share and at 154.45 yen per dollar. Fees 295%.
Mitsui	\$150	1992	open	open	103.00	Coupon indicated at 2 1/4%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2 1/4% premium. Fees 295%.
Mitsui	\$150	1994	3	open	101.00	Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2 1/4% premium. Fees 295%.
Mitsui Real Estate Development	\$200	1992	open	100	108.88	Coupon indicated at 2 1/4%. Noncallable. Each \$5,000 note with one warrant exercisable into company's shares at an expected 2 1/4% premium. Fees 295%.
Omron Tateisi Electronics	\$150	2002	2 1/2	100	98.50	Semiannually. Callable at 103 in 1992. Convertible at 1,350 yen per share and at 154.45 yen per dollar. Fees 295%.
Japan Synthetic Rubber Company	DM 100	1992	open	100	100.00	Coupon indicated at 2 1/4%. Noncallable. Each 5,000-mark note with one warrant exercisable into company's shares at an expected 2 1/4% premium. Fees 295%.
Tesco	£115	2002	4	100	105.25	Redeemable at 125% in 1992 to yield 8 1/4%. Convertible at 524 pence per share, a 9.85% premium. Fees 295%.
Moët-Hennessy	FF 800	1997	1	100	—	Each 10,000-franc note with 18 three-year warrants exercisable into company's shares at 2,720 francs per share, a 1.57% premium.

New Soviet Loan Cuts Cost Without Cutting Profit

By Carl Gewirtz

International Herald Tribune
PARIS — The Soviet Union returned to the international credit market last week with an artificially constructed loan that established a new low rate of interest without cutting the profit for lenders.

At first glance, Vneshtorg, the government bank for foreign trade, succeeded in driving down its borrowing cost by setting the interest rate at 1/4 point over the London interbank offered rate. Previously, the state bank had paid a split margin to borrow eight year funds, 1/4 point margin for five years and 1/4 point in the final three years.

Now it is offering to pay only 1/4 point throughout for a \$200 million, eight-year loan.

In fact, bankers say, there is virtually no change. The new loan is actually shorter and the commission paid to lenders higher, giving banks a return that is about equal to what they earned on the previous transaction in October.

The new fee is 35 basis points, or 0.35 percent, compared with the 25 basis points paid last year. In addition, the previous loan was a so-called bullet, payable in one lump sum at final maturity. Repayment on the new loan starts after the sixth year, giving an average life of seven years.

This means the banks earn 1/4 point less for two years in return for a higher front-end fee of 10 basis points. Bankers calculate that the income they can earn deploying that higher fee in other business

just about equals what they give up by cutting the margin.

The apparent Soviet strategy is aimed at getting lenders accustomed to the lower interest rate without asking them to accept an actual reduction in charges. That

INTERNATIONAL CREDIT

presumably will come in the next operation, when the most visible part, the 1/4 point margin over Libor, will have been established as the benchmark.

At the same time, Vneshtorg is seeking to increase the \$150 million bankers' acceptance facility established last September. Banks are being asked to commit for an additional \$100 million, all of which is aimed to provide short-term trade finance.

Vneshtorg will pay the banks an annual facility fee of 10 basis points on the full amount, irrespective of whether any drawings are made. Banks participating in the facility are to be invited to propose borrowing terms through a tender panel but are committed to providing cash at a maximum cost of 15 basis points over the acceptance commission rate.

Last week, the Organization for Economic Cooperation and Development reported that the Soviet Union, like its East European allies, would be forced to borrow increasingly on the international market to finance Western imports because all are losing market share in international trade and are un-

able to earn the hard currency to pay for imports.

Unless this trend can be arrested, the OECD said, these countries will have to choose between allowing foreign borrowing to rise to levels that neither the countries themselves nor their lenders may find acceptable or sacrificing goals of growth and investment by cutting Western imports.

In the commercial paper market, some bankers report that their appetite for new business is diminishing.

"You get to a certain level," one dealer said, "where in order to take on new business you have got to take on additional stuff." But the current level of profitability marketing such paper is not sufficient to justify that expansion, he said.

Nevertheless, there is general agreement that investor appetite continues to grow.

The latest entrant into the market is Philips NV of the Netherlands, making its first foray into this segment of the credit market. It has appointed Bankers Trust, Citicorp, Credit Suisse First Boston and Swiss Bank Corp. to market up to \$300 million of Eurocommercial paper.

Kyowa Bank Ltd. of Japan appointed Chase Manhattan to arrange a certificate of deposit program for up to \$100 million. The paper will have maturities of one, three and six months.

The facility is divided into two sections, committed and uncommitted. The committed portion has

a maturity of five years and carries an annual facility fee of 5 basis points. Drawings under this facility will yield a margin of 5 basis points over Libor plus a utilization fee of 5 basis points if more than half the amount is used.

Under the uncommitted facility, Kyowa may request a tender panel of banks to bid for CDs. Each tender panel member also has the right to present direct bids to Kyowa.

Den Danske Bank of Denmark appointed Salomon Brothers to market up to \$200 million of short- and medium-term CDs.

The Italian savings bank Cassa di Risparmio di Roma is seeking to raise \$100 million through the sale of CDs. It has named Chase and Swiss Bank Corp. as dealers.

In the sterling market, Industrial Bank of Japan's London branch said it is establishing a CD issuance program for up to £200 million.

Rank Organization appointed County NatWest, Samuel Montagu and Swiss Bank Corp. to market up to £100 million of CP.

In the syndicated loan market, Chase Manhattan reported that renegotiation of Sweden's standby facility was completed last week with 46 banks agreeing to lower terms on a smaller amount. The quick renegotiation of this renegotiation may calm talk of an impending hardening of bank loan charges that was triggered by the resistance Electricité de France ran into renegotiating its \$1 billion facility last month.

Data on Jobs Lower Hopes For Rate Cut

New York Times Service

NEW YORK — Better-than-expected U.S. unemployment data have dampened hopes for lower interest rates that had been raised by negative reports on factory orders and leading economic indicators.

U.S. CREDIT MARKETS

markets on Friday, as the unemployment figures proved disappointing to dealers and traders. The Labor Department reported that the U.S. unemployment rate remained at 6.6 percent in February, the same as in January and December. In addition, the rise in nonfarm employment was almost double most predictions, and the factory workweek rose to 41.2 hours, its highest level in more than 20 years.

Earlier in the week, optimism on rates had been buoyed by reports of a 4 percent decline in factory orders and a 1 percent drop in the index of leading economic indicators in February.

But Theodore Tung, an economist at the National City Bank of Cleveland, said: "The workweek and factory employment statistics indicate that improved industrial production figures will be reported next Friday, which would make an easing of interest rates by the Fed less likely."

On Friday, the bellwether 7 1/2 percent Treasury bond due in 2016 opened at 99 31/32, down from 100 20/32 on Thursday. It closed at 99 28/32, for a yield of 7.51 percent, while the 7 1/4 percent issue due in 1996 ended at 100 9/32, off 18/32, to yield 7.20 percent.

Among shorter securities, the Treasury's new two- and five-year issues were offered at prices slightly higher than the averages set at the previous week's auctions. The 6 1/2 percent two-year issue fell 5/32, to 99 24/32, to yield 6.39 percent, while the 6 1/4 percent, five-year issue was at 99 12/32, off 11/32, to yield 6.76 percent.

Among Treasury bills, the three-month bill rate rose to 5.65 percent, while the six-month bill advanced to 5.67 percent.

U.S. Consumer Rates		March 6
Prime Rate		5.50 %
1 Year T-Bill		5.65 %
3 Month T-Bill		5.67 %
2 Year T-Bill		6.39 %
5 Year T-Bill		6.76 %
1 Year Note		7.51 %
3 Month Note		7.20 %
5 Year Note		7.51 %
10 Year Note		7.51 %
30 Year Bond		7.51 %

Source: New York Times

EUROBONDS: Selective Demand for U.S. and Canadian Dollar Issues

(Continued from first finance page)
General Electric Credit Corp., McDonald's Corp. and Monte dei Paschi di Siena, the Italian banking group.

While bankers said there was increasing interest in Canadian dollar paper they admitted it was not going into the new issues offered last week. The first zero-coupon bond ever in this sector, called Canada Zero, was packaged by CIBC Ltd. The Canadian bank used Canadian government bonds stripped of interest payments to market 14-year bonds priced at 300 dollars that will be redeemed at 1,000 dollars. The capital gain at redemption is equivalent to an annual rate of interest of 9.31 percent — a level most analysts regarded as too stingy.

As for the U.S. dollar sector, only two issues drew a favorable response. Scania sold \$150 million of five-year notes at a price of 101 1/4 bearing a coupon of 7 1/4 percent. At the offering, and less the full underwriting fees of 1 1/2 percent, the paper for the Swedish aircraft and automobile manufacturer yielded 9 1/4 basis points, or 0.94 percent, over the yield on comparably dated U.S. government paper.

Although the company's debt is not rated, the margin over the U.S. Treasury yield was considered generous for a household name that investors regard highly.

Exxon Finds Some Bonds Are Forged

United Press International

NEW YORK — Exxon Corp. has uncovered forgeries of zero-coupon notes issued by Exxon Capital Corp. in the Eurodollar market.

Exxon, the world's No. 1 oil company and second largest industrial company, said about 1,900 notes with an aggregate face value of \$19 million and a market value of about \$4 million have been identified as forgeries. The notes are due Nov. 15, 2004.

An Exxon spokesman said Friday that the forged notes are bearer securities, meaning the person in possession is assumed to be the owner.

Most of the legitimate notes are recorded in book-entry form but investors should be warned that the forgeries are circulating and to have any such notes they hold authenticated, Exxon said.

It said the forgeries are being investigated by Morgan Guaranty Trust Co., the paying agent for the issues, Euro-Clear and Codel, the two major European securities clearing systems, and police in London and Brussels.

Exxon said Euro-Clear "has examined to its satisfaction all notes physically" at its Morgan Guaranty depository in London and "is pursuing the examination for authenticity of new deposits of these notes as they enter the Euro-Clear system."

Exxon said Codel was reviewing all the notes within its system.

At Exxon's direction, Morgan Guaranty is ready to validate any notes in order to establish their authenticity.

SELECTED U.S./F.C. QUOTATIONS

	NEW YORK	NEW YORK
Bitur Corp.	3 1/4	3 1/4
Chiron	29 1/4	30 1/4
Goodmark Foods	15 1/4	15 1/4
MAG Holdings	5	5 1/4
NAMAR	24	25
Spectrolyne	22 1/4	23 1/4

WITH COMMENTS OF:
CONTINENTAL AMERICAN
These are indicative prices as of Mar. 5, 1987

Market-Minded Investment Strategies Nikko Securities Announces Expansion of Its European Network

New Representative Offices in Milan and Madrid

Our new representative offices in Milan and Madrid will initiate operations on March 9, 1987 to provide added services to international clients. With the opening of representative offices in these two cities, Nikko's international network rises to a total of 21 locations.

While our association with clients in Milan and Madrid already has a considerable history behind it, the opening of our new representative offices marks a new chapter in our commitment to better serving clients in these important markets.

The expansion of our network brings Nikko's expertise and resources even closer to clients. Few others can match our broad-ranging capabilities in research, for example, and our market-minded perspective has made us one of the leading capital market traders and investment banks worldwide.

We are continuing to build an around-the-clock trading capability with seats on the Tokyo, London, New York, and other major securities and futures exchanges. Backed by Nikko's network, comprehensive services, and professionals around the world, our new locations in Milan and Madrid will play an increasingly important role in providing responsive international services.

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TOKYO LONDON ZURICH GENEVA FRANKFURT LUXEMBOURG PARIS COPENHAGEN BAHRAIN
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BELL:

Getting to Market

(Continued from first finance page)

think the labs have a wonderful opportunity. But with the door open to them to impact the marketplace, we're really not seeing much.

Mr. Goldman sees a parallel between AT&T today and Xerox in the 1970s. Mr. Goldman was instrumental in founding Xerox's Palo Alto Research Center, perhaps the most creative computer research laboratory of the 1970s. The center did pioneering research into personal computers, laser printing and data communications, which are now multibillion-dollar markets.

Yet Xerox never quite succeeded in capitalizing on its technologies, because of conflicting corporate priorities and the burdens of technology transfer, the process of getting a technology off the workbench and into the field.

Venture capitalists, entrepreneurs and aggressive younger companies brought the research center's concepts to market.

"Everyone underestimates how difficult technology transfer is at a large company," Mr. Goldman said. "I did then and Bell Labs is now."

Neither AT&T nor Bell Labs is quite that way.

AT&T's president, Robert Allen, said, "I've been very pleased by the Bell Labs responsiveness to the new environment. It's responded better than I expected."

"But that doesn't mean they're perfect. That doesn't mean they've done enough."

Bell Labs executive vice president, Sol Buchsbaum, said, "Fair people would conclude that we have done a very good job, but I'd be the first to say we still have a long way to go."

Mr. Allen said he would grade the Bell Labs efforts at technology transfer a "solid B."

But Mr. Bell of the National Science Foundation said, "I call that grade inflation. I'd have a hard time giving them a B. Besides this is really a pass-fail marketplace, where the only grades are pass or fail."

Bell Labs is still adjusting to that marketplace. Regulatory restrictions following the breakup prevented researchers and development people in different parts of the company from communicating with each other. Similarly, hundreds of people left the labs after divestiture to join BellCore, the research arm of the seven regional Bell operating companies.

"The several years we couldn't talk with each other sowed the seeds of some problems," said John Mayo, executive vice president of Network Systems at Bell Labs. He said that those problems were gradually disappearing as regulatory barriers eroded.

AT&T and Bell Labs say they are working aggressively together to bring ideas to market far more rapidly and cost effectively.

"We realize that we work for a company that isn't a monopoly and that we don't have the luxury of time we once did," Mr. Buchsbaum said. "We're working to reduce the product development cycle. We used to do things in a serial process; we have to telescope things into a much shorter time frame."

AT&T now encourages the labs to work with AT&T's marketing and manufacturing people.

"I think this management system is getting progressively better," said Wayne Weeks, president of AT&T Network Systems. "The development groups are better integrated into the business planning groups. But clearly the biggest problem we have is the product realization process: We are not conceiving, designing, developing and introducing products nearly as fast as I'd like."

One way AT&T and the Labs have tried to accelerate the process is by encouraging the designers to be on the product team all the way through to production and sales.

"We've tried very successfully in some cases to let the designer keep some sense of ownership," Mr. Weeks said. "But some of the experiments we have been trying have failed. I wouldn't kid you about that."

The transfer from the laboratory to the factory floor "remains the single biggest bottleneck," he said.

One reason, both AT&T and Bell Labs employees acknowledge, is that, for the most part, people do not join Bell Labs to create market-



Nobel prize winners: John Bardeen, left, William Shockley and Walter H. Brattain at Bell Laboratories in 1948.

able technologies, they join to create new technologies.

Mr. Goldstein said, "You have to ask what traits of the old culture need to be changed. Speed of response is clearly one area; arrogance — these are things that are very difficult to change because they're part of what made Bell Labs what it was."

"My doubts go to management and culture rather than technology and product," he said. "The measure of success is not the number of patents, it's in the marketplace."

Mr. Buchsbaum and other Bell Labs managers insist that a new Bell Labs is emerging that will give AT&T quality research and innovations.

Mr. Mayo of Bell Network Systems predicted that Bell Labs developments in fiber optics, software and high-speed data communications would create a product "revolution" for AT&T.

Mr. Allen, AT&T's president, expects nothing less. "The marketplace is going to change very dramatically over the next five years, just as it has over the last five years," he said.

The research and development budget line "will be a function of success in the marketplace and what is competitively required," he said. "We will try to reduce the percentage of cost that relates to R and D." The Bell Labs budget this year is \$2.5 billion.

Mr. Allen added: "We're placing a bet of a lot of effort in the labs and we're expecting a bet of a lot out of them."

But until those expectations are met, Paine Webber's Mr. Grubman noted, "Bell Labs is more of an asset to the general scientific community than it is to AT&T."

Poland Makes All the Right Noises for IMF Relief

By Michael T. Kaufman

New York Times Service

WARSAW — The Polish government gave a nod of sympathy last week to Brazil but choked back any impulse to follow suit and suspend debt service payments.

Instead, the Poles are pinning their hopes for economic relief on tough discussions with the International Monetary Fund and the World Bank.

Brazil suspended interest payments Feb. 20 on \$68 billion owed to commercial banks.

Jerzy Urban, the Polish government spokesman, declared that Poland could understand Brazil's frustrations and actions and that Poland would be even more justified than Brazil in taking the same course because its economy had been damaged by five years of Western sanctions with their punitive trade and credit restrictions.

But Mr. Urban emphasized that Poland would continue to honor all its obligations.

Wladyslaw Baka, the head of the Polish National Bank, who has just completed preliminary talks with the International Monetary Fund and the World Bank, said that he "found a good deal of understanding for Poland's difficult economic situation."

But Mr. Baka is seeking more than sympathy. His government, which was readmitted to IMF membership last June after it quit 36 years ago, is eager for a long-term program of IMF credits to stabilize an economy that is saddled with huge debt, low export earnings, deteriorating factories and an uninspired work force.

Before the readmission was granted, Poland raised some food prices, devalued its currency and curbed some subsidies.

But those measures are not expected to satisfy the IMF. Polish government economists expect the IMF to require major adjustments before loans are offered.

One European diplomat who monitors Poland's economy noted that "in the matter of debt repayment as with so many other aspects of the Polish economy, what seems to be necessary often appears impossible."

Adhering to revised schedules for debt repayment is viewed by

At the moment, most economists here are concentrating on the debt burden as the most pressing of many related economic problems.

Poland owes about \$35 billion to Western countries and banks. The yearly interest runs to about \$3 billion, while the country's ability to pay, that is, hard currency earnings minus the cost of imports, runs to \$1.5 billion to \$2 billion. This

economists here as the only way to restore Polish creditworthiness at a time when the removal of U.S. sanctions offers some renewed hope of investments and export credits from Washington.

President Ronald Reagan lifted remaining economic sanctions against Poland on Feb. 19, reducing tariffs on the importation of some Polish goods and enabling

Mr. Urban said that the government was committed to paring the subsidies paid to industries and consumers.

He said that in the current annual plan subsidies were being kept on the same level as they were last year but that disbursements, following a marked devaluation of the zloty against foreign currencies, had effectively dropped by 15 percent.

"In such ways, gradually year after year, the amount of funding will decrease for some goods," Mr. Urban said.

But bedeviling the plans of the economists are the political realities of a country where social upheaval has in the past been provoked by austerity programs.

In the past few years, price increases have been followed by selective wage increases, usually in the largest factories where the prospect of disruption frightens managers and politicians.

The planners have predicted price rises of about 17 percent this year, covering all areas of economic activity, including housing, transportation, heating, fuel, food, cigarettes and alcohol.

The ministers, many of whom are trained economists, have been describing curbs and cuts as the painful but necessary road leading out of crisis. Many hope that an often volatile and long-suffering Polish society will bear further hardships with stoic calm.

Several score companies have been put on alert and three have actually been liquidated," Mr. Urban said.

Some independent economists said that if Western standards of efficiency were to be used to determine solvency, a significant percentage of Polish companies would be forced to close.

Under the sanctions, Poland had lost its most-favored-nation status, which allows imports to enter the United States at low tariffs.

In anticipation of the tough conditions the IMF will be seeking, Polish economic planners are discussing reform and austerity measures.

"They are saying all the right things about eliminating subsidies, holding the line on wages, raising prices and liquidating failed enterprises," a Western diplomat said. However, he added, "There is a real gap here between conceptualization and implementation."

Last week Mr. Urban insisted that the government was intent on putting into effect any recommended IMF policies and noted that some measures had already been taken.

One European diplomat who monitors Poland's economy noted that "in the matter of debt repayment as with so many other aspects of the Polish economy, what seems to be necessary often appears impossible."

Adhering to revised schedules for debt repayment is viewed by

management official at Pan American World Airways about whether the two could combine. Pan Am, like TWA, is primarily an international carrier.

David Shipley, a spokesman for USAir, declined to comment.

USAir has said TWA's bid is an attempt to interfere with its takeover of Piedmont Aviation Inc. for \$1.65 billion in cash and stock. Mr. Icahn made his surprise offer on Wednesday when Piedmont's board was meeting to decide on the USAir offer, a decision it then delayed.

Mr. Icahn has said he might consider a merger involving all three air carriers.

Meanwhile, industry sources said that Edward I. Colodny, the chairman and president of USAir, had been seeking to build his defenses, with one source saying Mr. Colodny had talked with a senior

Morocco Wins

Delay on Debts

To Governments

Reuters

RABAT, Morocco — The Moroccan government's industrialized creditor nations have agreed to delay \$900 million of debt repayments originally due in the next 15 months, Morocco's news agency said Sunday.

The agreement, reached at a meeting Friday with 11 countries of the so-called Paris Club, allows Morocco to postpone over 10 years debts falling due from March 1987 to June 1988. The accord includes a five-year grace period when Morocco will not repay any principal.

Finance Minister Mohamed Berrada told the Paris Club the kingdom needed to reduce its immediate repayments to achieve higher economic growth.

Morocco's difficulties with its \$14 billion foreign debt stem partly from a collapse in prices for phosphate, one of its major exports. Last year, it rescheduled about \$1.8 billion in medium-term loans to commercial banks.

In December, the International Monetary Fund approved a \$276 million loan to aid economic expansion.

Wall Street Review

AMEX Most Actives

Vol.	High	Low	Last	Chg.
Profit	11437	9	9	+1/4
Wells	2877	150	150	+1/4
BAT	2243	8	8	+1/4
Wheat	2691	14	14	+1/4
Wicks	2645	4	4	+1/4
ICI	1806	21	21	+1/4
Bent	1831	12	12	+1/4
Lea	1806	14	14	+1/4
Hind	1544	23	23	+1/4
Tec	1473	40	40	+1/4
Hill	1368	21	21	+1/4
Wick	1233	30	30	+1/4
Wick	1079	30	30	+1/4
Hick	1035	8	8	+1/4
Lea	933	2	2	+1/4
Am	874	39	39	+1/4
W	818	42	42	+1/4
L	727	9	9	+1/4
D	702	14	14	+1/4
H	717	26	26	+1/4
A	705	15	15	+1/4
A	678	20	20	+1/4
E	652	22	22	+1/4
D	627	34	34	+1/4
A	606	9	9	+1/4

NYSE Most Actives

Vol.	High	Low	Last	Chg.
AT&T	11722	14	14	+1/4
IBM	10400	23	23	+1/4
Gen	9413	8	8	+1/4
Coc	8532	21	21	+1/4
US	8032	51	51	+1/4
Hev	750	7	7	+1/4
Coc	6581	47	47	+1/4
ISA	6158	147	147	+1/4
Gen	5888	3	3	+1/4
Coc	5830	18	18	+1/4
Am	5633	40	40	+1/4
Rev	5776	14	14	+1/4
Ch	5418	21	21	+1/4
Am	5728	2	2	+1/4
Hev	5453	10	10	+1/4
Gen	5380	18	18	+1/4
HE	5292	30	30	+1/4
Am	5165	10	10	+1/4
V	5079	27	27	+1/4
Am	5054	15	15	+1/4
Am	4973	8	8	+1/4
Per	4962	26	26	+1/4
W	4927	11	11	+1/4
S	4828	20	20	+1/4
P	4821	32	32	+1/4

AMEX Sales

Sales Vol.
Total for week
Year ago
Week ago
Jan 1 to date
1986 to date

NYSE Sales

Sales Vol.
Total for week
Year ago
Week ago
Jan 1 to date
1986 to date

AMEX Diaries

	This Wk	Last Wk
Advanced	493	493
Declined	296	296
Unchanged	142	142
Total Issues	931	931
New Issues	196	196

NYSE Diaries

	This Wk	Last
Advanced	1193	896
Declined	767	1059
Unchanged	220	222
Total Issues	2180	2178
New Issues	155	244

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